

TECHNICAL REPORT

# Review of Andean Community Countries' Technical Assistance Needs

Expressed in National Trade Capacity Building Strategy Papers



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# Preface

This report attempts to further an understanding of the process of building the capacity of the Andean countries to engage effectively in international trade, independent of the amount and allocation of current assistance programs and the domestic climate for trade liberalization. The trade capacity building (TCB) strategies of Bolivia, Peru, Ecuador and Colombia and the summary strategy of the Andean Community (AC) form the basis of this report. Governments submitted the strategies in late 2003 as an exercise related to the Free Trade Area of the Americas negotiations; and so the structure of the papers tracks FTAA negotiating topics.

Since these strategies were submitted, the countries' trade agendas have expanded to include the possibility of bilateral free trade agreements (FTAs) with the United States. In addition, the scope of USAID support for TCB in the region has been broader than the individual papers suggest. This report should nonetheless help the agency evaluate its future support from the perspective of the Andean countries' recent demands and the focus of U.S. support so far.

The report's conclusions draw additionally on recent international organization studies. These include the World Bank's consideration of the effects of regulation on business and of the lessons from the North American Free Trade Agreement for Latin America and the Caribbean and the Inter-American Development Bank's 2002 exercise to quantify the potential impact of trade liberalization through FTAs in AC countries.

Venezuela's strategy, *"Estrategias Nacionales en el Marco del Programa de Co-operacion Hemisferica,"* provides only a summary of the country's Economic and Social Development Plan, 2001–2007. Venezuela maintains that a TCB strategy alone is insufficient to attack poverty and inequality in the hemisphere. Because the prospect of a Venezuela–U.S. FTA is unlikely, and USAID TCB support is limited to USDA scholarships, this report refers to Venezuela's strategy only in the context of the AC requests for TCB assistance.



# Executive Summary

The Andean countries are facing a complex trade-negotiating environment. Individual countries are at various stages of fashioning development strategies that incorporate trade. Balancing these factors, this report uses nationally generated TCB strategies and other available studies to identify the countries' trade-related needs. The report aims to facilitate the design of a technical assistance strategy.

## Setting

In November 2002 trade ministers of the Americas launched a Hemispheric Cooperation Program (HCP), a TCB initiative to assist small and developing countries benefit fully from hemispheric free trade. The HCP is a central element of support for the Free Trade Area of the Americas. The foundation of the HCP is TCB strategies based on needs assessments. The countries conduct these assessments and draft TCB strategies that provide insights not only for themselves but also for the donor community. The strategies help integrate trade development into the countries' overall development efforts.

By October 2003 Bolivia, Peru, Ecuador, and Colombia had completed at least preliminary drafts of FTAA-related TCB strategies. Separately the Andean Community secretariat submitted a strategy for strengthening the trade-related capacities of the region. The aim of the documents is to define, prioritize, and articulate needs related to strengthening the capacity for:

1. Preparing for negotiations through steps to enhance awareness and participation,
2. Implementing trade commitments and setting up institutions to enforce obligations, and
3. Adjusting to integration with measures to enhance competitiveness domestically and in international markets.

The strategies address trade-related issues that correspond largely to the FTAA negotiating groups: market access, agriculture, government procurement, services, investment,

intellectual property, competition (antitrust policy), dispute settlement and subsidies, antidumping and countervailing duties.

In November 2003 U.S. Trade Representative Robert B. Zoellick formally notified Congress, on behalf of President Bush, of the Administration's intent to initiate negotiations for a free trade agreement with Bolivia, Colombia, Ecuador, and Peru. He announced that the Administration intends to structure the negotiations to begin in the second quarter of 2004, initially with Colombia and Peru, and that the United States is prepared to work with Ecuador and Bolivia with a view to including them in the agreement. In his letter of notification, Ambassador Zoellick noted that the United States needs "to work with Bolivia, as well as Ecuador and the others, on capacity building related to the ability to participate in, implement, and take advantage of such an agreement."

In addition to topics under negotiation in the FTAA, Ambassador Zoellick's letter noted that the United States will pursue specific objectives related to electronic commerce, transparency, anticorruption and regulatory reform, environment and labor, including child labor. He also noted the need to make progress on a number of issues of concern to the United States. These include inadequate protection of workers rights in Ecuador, Peruvian and Colombian efforts to resolve disputes involving U.S. investors, and Colombia's progress in addressing violence against trade unionists. Recently concluded U.S. FTAs include commitments regarding labor and environmental standards.

Bolivia, Colombia, Ecuador, and Peru are members of the World Trade Organization (WTO) and participate in the current round of multilateral negotiations. The four countries are beneficiaries of a U.S. Andean trade preferences program, which was expanded in 2002 to include certain textile and apparel products but which expires at the end of 2006. Along with Venezuela they form the Andean Community, whose goals include a common external tariff. However, a number of AC international trade practices and investment regulations are relics of the import substitution policies of the 1970s and 1980s and will be particular targets in trade negotiations. Individual Andean countries have concluded trade agreements with MERCOSUR, Chile, Mexico and Cuba, among others. It is likely that the FTAA and certainly a U.S. FTA will include disciplines more extensive than those contained in these agreements; so negotiation and implementation will pose fresh challenges for the Andean countries. The likely scope of the FTAA and a U.S. FTA, coupled with the willingness of the United States and the international community to provide development assistance, can help improve the quality of life in the Andean countries.

## **Preparing for Negotiations**

Bolivia, Ecuador, and Peru stress the need for assistance in preparing themselves for negotiations. They note the importance of interagency coordination, crucial to getting an early



“buy-in” from the bureaucracy that will ultimately implement the agreement. The three also flag the special problems they will face in services negotiations. The WTO General Agreement on Services (GATS) allows countries to negotiate lists of service sectors that are subject to the agreement’s disciplines. The FTAA may – and an FTA certainly will – require the countries to negotiate exceptions to the agreement’s disciplines. This approach takes much more homework and understanding. Services is a nebulous and complicated field to negotiate and countries are right to seek assistance.

The countries have identified particular negotiations about which they feel ill-prepared: for Peru and Ecuador, tariff methodologies and government procurement; for Bolivia and Ecuador, standards; for Bolivia, investment; and for all, intellectual property, where U.S. FTAs go far beyond the WTO Agreement on Trade-Related Intellectual Property Rights.

The countries take different approaches in seeking assistance for technical studies. Bolivia has a laundry list of negotiating topics while the approach of Peru and Ecuador focuses more on “competitiveness” – what are their potential winners in this negotiation? Colombia is clearly defensive, seeking assistance for three different studies on agriculture, including one on non-tariff barriers for agricultural products in the Americas.

All four countries rightly seek help in promoting public awareness and seeking input of the private sector and non-governmental organizations.

## **Implementing and Enforcing the Agreement**

Colombia, Ecuador, and Peru note that they could require assistance in drafting implementing legislation and regulations and in training officials to carry out new requirements. In particular, every country seeks help in writing antitrust laws. Every country pinpoints the need for assistance in getting their customs administration up and running and in designing an adequate system to promote and administer technical standards. And every country says that it will need help in training a legal team for dispute settlement.

All of the countries emphasize agriculture and the need to meet foreign (U.S.) sanitary and phytosanitary requirements. Bolivia, Ecuador, and Peru propose financial assistance to establish and equip research stations and laboratories. Colombia requests training in risk analysis.

On intellectual property, Bolivia, Ecuador, and Peru and request assistance in writing laws and regulations, while only Colombia and Ecuador identify the important need to set up enforcement and administration mechanisms. Ecuador requests help in training judges and prosecutors.

Bolivia, Ecuador, and Peru and identify government procurement as an area for which they seek assistance in implementation, including the establishment of information technologies to facilitate notification and tendering.

Although the countries have not highlighted the problem of corruption, the United States will want to ensure that any assistance, whether in customs or procurement, promotes anticorruption safeguards. Also, with respect to potential bilateral negotiations with the United States, the countries might envision a need to better enforce domestic labor and environmental standards.

## **Adjustment and Competitiveness**

Bolivia is the most explicit in seeking assistance to identify and promote specific products for greater export diversity and growth, although Peru requests further study and Colombia advocates financial and technical support for its agriculture sector. General requests for structural adjustment assistance will require further elaboration and evaluation, as will requests for technical assistance to the private sector. All the countries pay special attention to the needs of small- and medium-sized enterprises.

The scope of assistance requests for infrastructure improvement is not clear. All emphasize transport and telecommunications, while Colombia also proposes a study of a regional energy scheme. Nowhere do the countries mention privatization or the need to promote transparent procedures for privatization. This is an area where USAID has offered assistance in other countries.

Similarly, the strategies do not touch on the need to ensure access to capital for the private sector, on general education, and on training and human resource development. A review of Mexico's post-NAFTA experience suggests that these too are crucial contributors to competitiveness.

## **Final Issues**

The Andean Community has often administered technical assistance in the region. Donors will want to consider the relevance and value of the AC secretariat as they extend TCB assistance. AC officials sit at the table during the FTAA negotiations. Venezuela's role certainly complicates AC participation in FTA-related matters. Finally, a technical assistance strategy for the Andean countries must address not only developing country wishes but also donor priorities.

# 1. Background

Bolivia, Ecuador, Colombia, Peru, and Venezuela comprise the Andean Community (AC).<sup>1</sup> Population totals 11 million. A vast area of 4.7 million km<sup>2</sup>, these countries enjoy a rich mosaic of geographical features. Some, such as the *cordillera* of the Andes and the Amazon basin, are common to all five countries, while others, such as the Caribbean coast, the Pacific coast, and the Atlantic–Pacific corridor, are not. Spanish is the common language, but many official native languages and dialects enrich the region.

After years of higher-than-average population growth, the region is now experiencing demographic trends common to the rest of South America: moderate population growth, averaging two percent per annum, extensive urbanization, and a low average population density of 23 inhabitants per km<sup>2</sup>.

The region has access to many important natural resources:

- 25 percent of the world's species of flora and fauna;
- The Amazon basin, which covers 30 percent of the total surface area of Andean countries;
- 40 percent of Latin America's freshwater resources;
- Access to rich oceanic resources; and
- A wealth of underground resources—55 percent of all oil, gas, and coal deposits in Latin America and 10 percent of the world's copper.

The region has not been able to transform these resources into sustained economic growth and social development. Table 1-1 provides a thumbnail's sketch of the region's population and income as well as combined export and import activities. While regional per capita GDP is a respectable \$2,183, the differences among the countries are significant. Venezuela's average income is nearly four times that of Bolivia. Populations also vary: Colombia is five times more populous than Bolivia and more than three times more populous than Ecuador.

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<sup>1</sup> In Spanish, *Comunidad Andina* or CAN.

The modest trade ratios are more similar, with the larger economies having a relatively smaller share of international trade.

**Table 1-1**  
*Andean Community GDP, Population, and Trade (2002)*

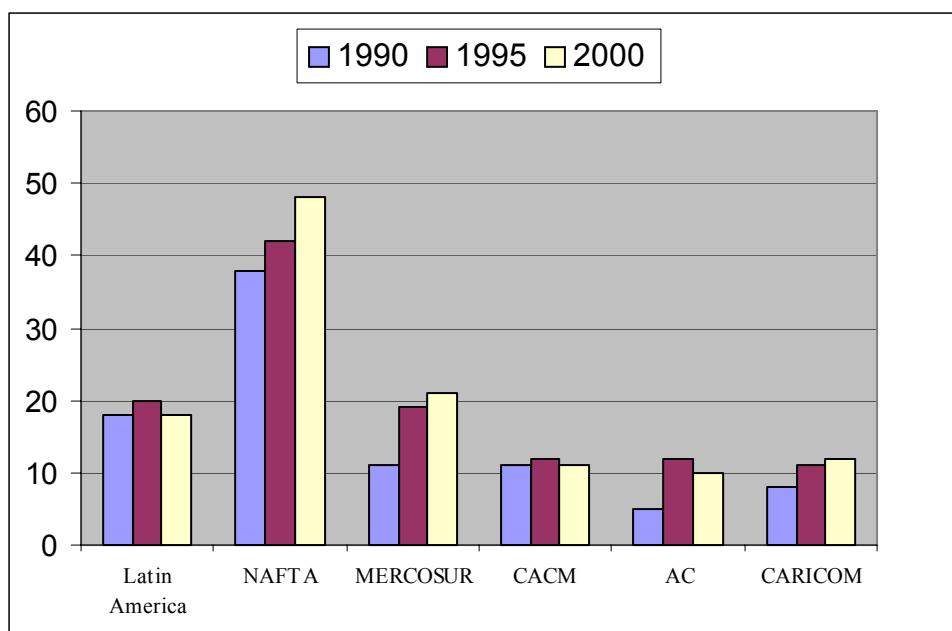
Country	GDP (\$mil)	Population (millions)	Foreign Trade (% of GDP)	Per Capita GDP (\$)
Bolivia	7,991	9	39	888
Colombia	81,451	44	30	1,851
Ecuador	24,417	13	46	1,878
Peru	56,870	27	26	2,106
Venezuela	84,700	25	42	3,388
CAN	255,429	117	35	2,183

SOURCE: *Andean Community, Secretariat*

## Elements of Andean Community Economies

Regional integration has undergone major institutional and ideological changes. Founded by four of the current members and Chile in 1969, the AC reflected an attempt to integrate relatively small and moderately industrializing economies that wanted to achieve economies of scale for their import-substitution industries. Venezuela joined in 1973. In 1977, Chile withdrew to pursue a different development strategy. As members liberalized export and import policies in the early 1990s, Bolivia, Colombia, and Ecuador agreed to establish a customs union effective January 1, 2004; Peru was permitted to delay implementation of the common external tariff until 2005.

At present, the AC is Latin America's second-largest economic bloc, with half the population of MERCOSUR but only a third of the larger region's GDP. The AC has 3.5 times the combined population of the Central American Common Market countries and six times their combined GDP. While 60 percent of the value of the AC countries' trade derives from transactions with the United States and the EU, intraregional trade is a modest 10 percent, smaller than in any other hemispheric regional trade group. Figure 1-1 illustrates that intraregional trade has been declining in the late 1990s after having surging earlier in the decade. In addition, the variety of Andean exports is limited, comprising minerals, oil and gas, and primary processed products.

**Figure 1-1***Intraregional Trade 1990 – 2000 (% of total trade)*

SOURCE: IDB, *Economic & Social Progress Report*, 2002

The AC countries fall within the World Bank's lower middle-income category, and their development indices are classified as average. The per capita Gross National Income (GNI) was \$2,212 in 2001. National per capita incomes range from \$950 in Bolivia to \$4,760 in Venezuela.

The commercial profiles of the Andean countries are increasingly diverse. In Venezuela, for example, exports consist of oil and other mineral resources. With two-thirds of its GDP coming from basic industries, Venezuela's economy is highly vulnerable to fluctuations in world oil prices. In contrast, Colombia's service sector has surpassed agriculture and industry in share of GDP, and its exports are more diversified than those of its neighbors, including coal, minerals, coffee, and cut flowers as well as textiles and clothing. Colombia is an industrializing country that processes agriculture and minerals and has a tradition in a number of labor-intensive industries. Peru, still exporting mainly minerals and primary products, is the sole importer of oil among AC countries. Industry and services generate each about 44 percent of Peru's GDP. Smaller and poorer Bolivia and Ecuador are even less diversified. Minerals are Bolivia's chief export, with gas exports increasing until recently. Ecuador exports primary products such as bananas, oil, and shrimp.

Divergences are somewhat less apparent in foreign direct investment, as measured per capita, averaging \$54 annually between 1990 and 2000, with Venezuela receiving two to three times the amounts of neighboring countries (see data in Appendix A). Annual fluctuations are

substantial. Venezuela, the largest recipient of FDI in the AC in 2001, received very little FDI in 2002/2003, probably because of political uncertainty. Colombia's and Bolivia's investment inflows also slowed while flows to Peru and Ecuador remained steady.

The Andean countries' development record over the last 50 years has been modest if not disappointing. Between the 1960s and 1990s, per capita income grew by less than 3 percent, inflation averaged 20 percent, and employment advanced by barely 1 percent per year. Development has varied by country, but political instability and changing economic policies exacerbated income inequalities and problems in housing, health, and education among poorer households. Many members of poor households increasingly turned to the informal sector to earn a living.

Modest external trade-GDP ratios indicated the lack of the Andean economies' openness to official trade. Not surprisingly, because of their size and inward-directed policies, the more industrialized countries of Colombia and Peru had the lowest trade ratios. This was less a result of concentrating on natural resource exports (like Chile) than the low productivity of major sectors and the disincentives that policymakers had misguidedly imposed in the past. When the Andean Pact was signed in 1969, import substitution policies and strong state participation in industry were dominant in Latin America. In providing equitable distribution of integration's benefits, the planners designed investment schemes that failed.

Since 1990, the shift toward trade liberalization has led to the decline of average import tariffs from more than 35 percent to 12 percent. At the same time, member countries worked hard to stimulate non-traditional exports and achieved encouraging results early on. But the financial crises of larger Latin American neighbors in the late 1990s dampened the economic and social performance of AC countries too, especially Bolivia and Ecuador.

In a recent conference at La Paz, a representative of the World Economic Forum maintained that AC countries ranked low on the world "competitive ladder," which combines export environment and productivity information. When 80 countries are ranked according to export, investment environment, and productivity indicators, Latin American economies end up in the bottom third. Peru and Colombia just reach the Latin average, while Venezuela, Ecuador, and Bolivia are close to the bottom. A recent study by the World Bank's Private Sector Group reveals the substantial delays and excess regulation that Andean entrepreneurs must bear when establishing a firm, getting credit, hiring and firing, and closing shop (see data in Appendix A.) That this precarious situation was not always the case can be seen from export diversification that Colombia pursued in the early 1970s. Within six years, non-traditional exports expanded by annual rates of 20 percent or more, creating jobs for thousands of unskilled and semi-skilled workers. But, as an earlier study by Morawetz has demonstrated, export diversification weakened because nearby customers were easier to

satisfy and because higher coffee prices ultimately resulted in an overvalued exchange rate that reduced the profitability of non-traditional exports.<sup>2</sup>

## Andean Integration System

The Andean Community's regional institutions are grouped under the rubric of the Andean Integration System (AIS). The *Andean Presidential Council* defines the AC's political aims; leadership rotates among countries annually. The *Andean Council of Foreign Ministers* provides political leadership and ensures that the objectives of Andean integration are attained. The council signs conventions and agreements on foreign policy and cooperation with third countries and international organizations, and it coordinates joint positions among members in international fora and negotiations. The Council also prepares the meetings of the Andean Presidents, elects and, when appropriate, removes the Secretary General, evaluates the performance of the General Secretariat, and deliberates on the initiatives and proposals submitted by member countries and the General Secretariat.

The executive organ, the *General Secretariat*, implements the decisions taken at the political level, while the Andean Parliament is a consultative body. The *Court of Justice* consists of five judges, each representing a member country, and has territorial jurisdiction in the countries, with permanent headquarters in Quito, Ecuador. The court ensures the legality of AC provisions through nullity actions, interprets AC laws to ensure uniform application, and settles disputes.

The *Andean Development Corporation* (CAF), the major institution for long-term financing, has headquarters in Caracas, Venezuela. It is made up of AC members as well as a number of other Latin American and Caribbean shareholders.<sup>3</sup> The CAF is a regional development bank that supports sustainable development and integration among member countries by raising funds to finance development projects and programs.

The Andean subregional agenda is the product of the Andean presidential summits. Although priorities vary somewhat with the rotating presidency, since 1998 a major goal of the political agenda is creation of a common foreign policy. By 2001 the goals were broadened to include "political cooperation in the framework of Andean integration," thereby incorporating elements of justice and home affairs that had not hitherto featured to any great extent in the discussions.

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<sup>2</sup> D. Morawetz, 1981. *Why the Emperor's New Clothes are not made in Colombia: A Case Study in Latin American and East Asian Manufactured Exports*. Oxford University Press.

<sup>3</sup> Bolivia, Colombia, Ecuador, Peru, Venezuela, Argentina, Brazil, Chile, Jamaica, Mexico, Panama, Paraguay, and Trinidad and Tobago, and 22 private banks in the region.

An agreement on stricter adherence to democratic principles establishes that if the democratic order is overthrown in a member country, the Andean Council of Foreign Ministers may agree to such sanctions as exclusion from the AIS, suspension of Andean projects or loans, and other measures permissible under international law. Another goal is to develop a common security and confidence-building policy in order to establish an Andean peace zone to supplement the work of the Organization of American States.

The internal economic agenda focuses on creation of a single Andean market; the external agenda, on trade negotiations. AC member countries attempt to speak with one voice in most international fora and have mostly done so in talks within the FTAA and with MERCOSUR.

The social and physical integration agenda covers education and culture, health, science and technology, and sustainable development. Physical integration relates to land and river transport and to energy supply lines and involves a plan of action for the entire infrastructure of South America. To facilitate cross-border movements, the AC devised a policy that led to the creation of border integration zones and bi-national border service centers. Cooperation projects for physical integration have been planned and are receiving support from financial institutions such as CAF and the IADB.

## 2. The Trade Policy Agenda

The Andean countries engage in an active trade policy agenda. Besides implementing Andean Community initiatives like the common external tariff, Bolivia, Peru, Ecuador, and Colombia are WTO members and participate in multilateral negotiations and in the Doha Development Agenda. They are also engaged in the negotiations for a Free Trade Area of the Americas. The four are currently individual beneficiaries of a U.S. trade preference regime. In November 2003, the United States government announced its intention to begin free trade negotiations with Colombia and Peru beginning in spring 2004 and to work with Bolivia and Ecuador to prepare them to come on board expeditiously. Some Andean countries are tackling separate initiatives with other trading partners (such as Peru with MERCOSUR) or in other arenas, such as APEC. Finally, the United States and the WTO conduct separate periodic reviews of country trade practices. All of this activity points to variety of TCB needs and initiatives among the four countries.



To ensure solid, practical recommendations for USAID TCB support, we begin our preliminary assessment with a survey of topics under current or prospective trade negotiation. The survey suggests not only a need to develop negotiating teams and expertise but also a need to generate information on which to base good negotiating positions. Once negotiations are finished, the agreements' obligations require implementation and enforcement. Countries need to anticipate and guide the private sector to take advantage of new trade and investment opportunities. They also need to consider adjustment policies as domestic interests respond to new pressures that challenge their competitiveness in domestic and foreign markets.

Our survey also concentrates on individual economies. For example, Colombia has been in the forefront in initiating bilateral free trade negotiations with the United States. Peru and Ecuador are in the midst of wide-ranging activities to ensure that their trade and incentive systems qualify for the potential benefits that regional integration can provide.<sup>4</sup> Bolivia still depends very much on foreign trade with its neighbors outside the Andean Market; so its trade strategy may be different from other AC members.

## Topics under Negotiation

Despite some reliance on officials of the Andean Community Secretariat, the demands of simultaneous multilateral, regional, and bilateral negotiations will force Bolivia, Colombia, Ecuador, and Peru to mobilize many teams of negotiators. To build effective teams, governments must draw on national experts from various sources, streamline interagency coordination, and possibly seek training in negotiating techniques.

The WTO hosts current negotiations on services, agriculture and markets access. Decisions remain on whether to launch additional negotiations on topics such as trade facilitation, competition (antitrust) policies, practices affecting investment, and a full range of intellectual property issues.

Ministers approved the establishment of nine FTAA negotiating groups: Market Access, Agriculture, Government Procurement, Investment, Competition Policy, Intellectual Property Rights, Services, Dispute Settlement, and Trade Remedies (Subsidies, Antidumping and Countervailing Duties). The November 2003 ministerial declaration stated that the FTAA's final common rights and obligations will contain provisions in each of these areas and that countries may choose to pursue additional liberalization and disciplines through plurilateral negotiations.

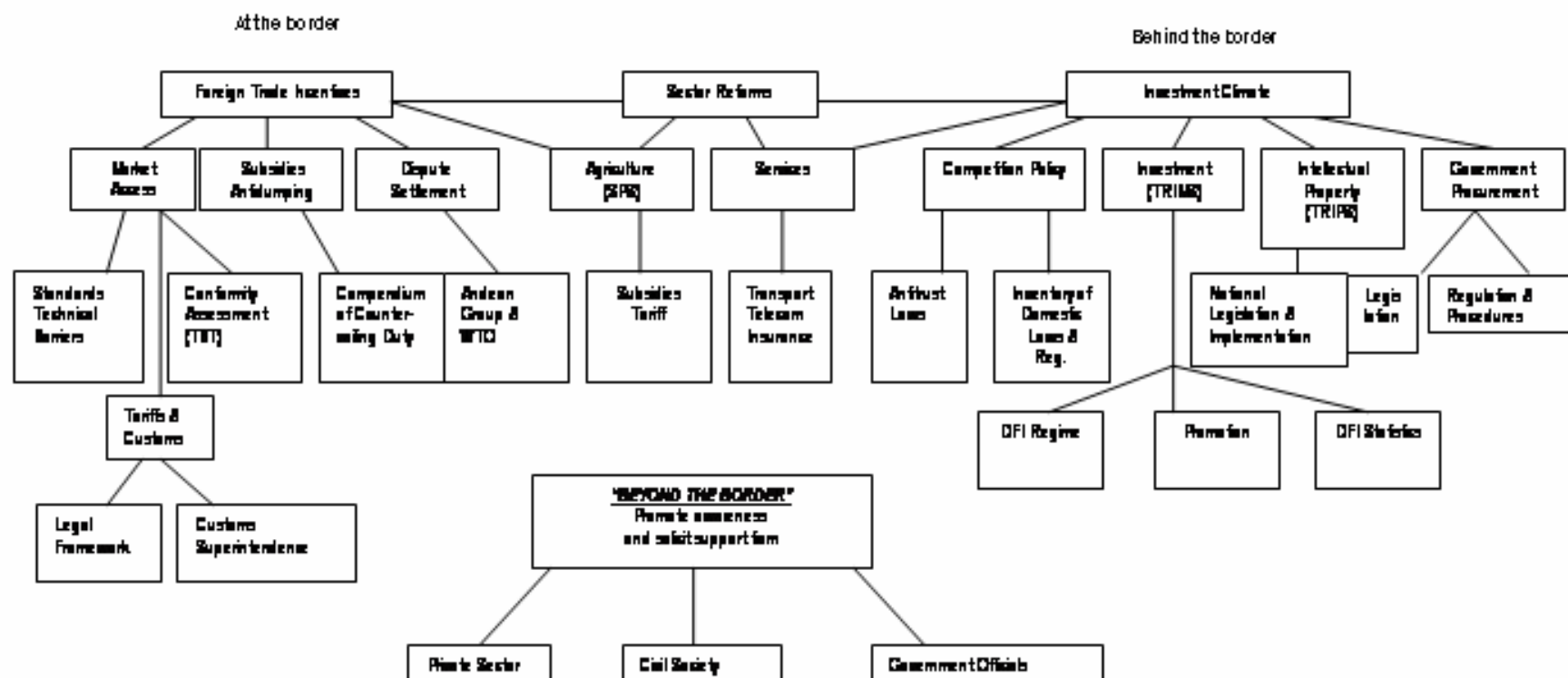
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<sup>4</sup> Examples of activities include the World Bank export development projects ongoing in Ecuador and approved for Peru. These are summarized in Appendix C.

Figure 2-1 shows the FTAA negotiating groups, which might be summarized under three headings:

1. Business conditions: promoting a favorable and equitable investment climate, stimulating competition with the help of strong antitrust policies, a sound and predictable legal framework, firm rules for government procurement, and national legislation on intellectual property rights
2. Trade facilitation: simplifying and harmonizing trade facilitation measures; uniform application of standards and conformity assessments, customs reform, subsidies, dispute settlement, and possibly antidumping and countervailing duties
3. Sectoral issues: specific market access agreements, including sensitive agricultural products, sanitary and phytosanitary measures, and trade in services

**Figure 2-1**  
*Major Areas of Trade Capacity Building*



In addition to most of the negotiating topics in the FTAA, recent U.S. bilateral FTAs have included special provisions on national enforcement of domestic labor and environmental standards.

To gain public support for trade agreements, authorities in the Andean countries have opened discussions with civil society. As their strategy papers make clear, they expect TCB technical assistance to reinforce these efforts.<sup>5</sup>

## Andean Trade Pact Preference Act and Its Amendment

The purpose of the 1991 Andean Trade Preferences Act (ATPA), as amended by the 2002 Andean Trade Promotion and Drug Eradication Act (ATPDEA), is to “promote broad-based economic development, diversify exports, consolidate democracy, and defeat the scourge of drug trafficking by providing sustainable economic alternatives to drug production in Bolivia, Colombia, Ecuador, and Peru.”<sup>6</sup> It expires in December 2006. Trade of the Andean Group countries with the United States increased substantially during the 1990s, but there is no clear evidence that special preferences have been a major driving force in bilateral trade. As Table 2-1 indicates, exports from four Andean countries to the United States nearly doubled between 1991 and 2002, but their relative share of U.S. imports fell. Similarly, in dollar terms U.S. exports rose, but the share of total U.S. exports fell.

**Table 2-1**  
*U.S. Trade with ATPA Countries, 1991/2-2001/2*

	1991/92	2001/02
U.S. Exports to ATPA countries (mil \$)	4,559	6,414
ATPA Share of Total U.S. Exports (%)	1.1	1.0
U.S. Imports from ATPA countries (mil \$)	5,014	9,590
ATPA Share of Total U.S. Imports (%)	1.0	0.8
APTA Balance of Trade with U.S.	455	3,177

*SOURCE: Computed from official statistics U.S. Department. of Commerce.*

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<sup>5</sup> USAID TCB assistance can be grouped into three categories: behind the border, at the border, and beyond the border, with the latter possibly including the soliciting public support for FTAs. Behind the border activities involve mainly investment legislation and implementation; at the border activities comprise trade policy reform as well as trade facilitation and customs reform. They have been integrated into Figure 2-1 simply for identification and comparison. In the following discussion, we will concentrate on the nine negotiating groups. USAID, United States Government Initiatives to Build Trade Related Capacity in Developing and Transition Countries (Washington D.C., 2001).

<sup>6</sup> The Office of the United States Trade Representative. 2003. First Report to Congress on the Operation of the Andean Trade Pact Preference Act as Amended. Washington D.C. April 30. For a summary of ATPDEA, see Appendix B.

Since textiles and apparel were only included in ATPDEA in 2002, early results for the first half of 2003 show that there has been an immediate response from textile and apparel exporters in Colombia and Peru, who nearly doubled their revenues. With the broadening of goods eligible for U.S. tariff preferences and the goal of a Free Trade Area of the Americas in 2005, it is now appropriate to assess the TCB needs of AC countries on a national and regional level. Our analysis of national strategies to strengthen the capacity of the external sector shows that policymakers in some countries have very specific ideas about capabilities that should have priority. But, as the Bolivian strategy paper demonstrates, aid programs of various donors are tackling several areas simultaneously, making duplicative effort very possible. Country strategies should pay particular attention to reliance on exports of textiles and apparel, considering the elimination of the global system of quotas in 2005.

## Trade Policy Reviews and National Trade Estimates

The World Trade Organization's periodic trade policy reviews (TPRs) and USTR's annual National Trade Estimate can provide insight into specific areas of need that TCB programs might address. The most recent round of TPRs (Colombia 1996, Bolivia 1999, Peru 2000) were generally positive, asserting that trade and investment liberalization had accelerated economic and export growth, lowered inflation, and improved general welfare. (Statistical information on those variables fully supports that judgment.<sup>7</sup>) The reviews also noted that while progress on policy and institutional reform was substantial in all three countries, enforcement of intellectual property rights, implementation of technical standards and the ability to meet sanitary rules were weak. WTO officials expressed concern about a number of protectionist measures in industry (local content requirements for automotive parts, tariff escalation within the CET) and in agriculture (import licenses, reference prices, technical barriers).

The "National Trade Estimate Report on Foreign Trade" (NTE) annually surveys significant foreign barriers to U.S. exports. The 2003 report, which covers all Andean countries except Bolivia, reviews 10 groups of trade barriers.<sup>8</sup> Those categories broadly correlate with the FTAA and FTA negotiating topics. Thus, individual NTEs are relevant not only for upcoming negotiations but also for USAID's and other donors' TCB assistance.

## Challenges of Free Trade Agreements

The 1990s saw a proliferation of comprehensive regional and bilateral trade arrangements. From 1993 NAFTA began Mexico's integration into the developed North American market.

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<sup>7</sup> WTO, Trade Policy Reviews; [www.wto.org/english/tratop\\_e/tpr\\_e](http://www.wto.org/english/tratop_e/tpr_e).

<sup>8</sup> USTR. The 2003 National Trade Estimate Report on Foreign Trade, Foreword; [www.ustr.org](http://www.ustr.org).

Between 1993 and 1998 all of the larger Andean countries concluded FTAs with Chile. Bolivia concluded a separate agreement with MERCOSUR in 1996. Venezuela, Colombia, and Mexico entered into an agreement in 1994, followed recently by of Mexico's negotiations with Peru and Ecuador. Peru acquired associate membership in the MERCOSUR in August 2003 and has consequently begun pursuit of a comprehensive market access agreement.

In its 2002 Economic and Social Progress Report—Beyond Borders, The New Regionalism in Latin America—the IDB took a computable equilibrium approach to quantify the potential impact of trade liberalization through FTAs in AC countries (including Venezuela). Trade expansion through agreements with the U.S. and Europe are significant, especially in light industry. The gains, expressed below as percentage of additional export growth, are greatest in the case of the full integration within the FTAA:

<u>Sector/FTA</u>	<u>AC-U.S.</u>	<u>AC-EU</u>	<u>AC-FTAA</u>
Primary	1.9	1.8	3.7
Light manufacturing	8	11.6	14.1
Heavy manufacturing	4	1.9	7.1

*SOURCE: IDB, Beyond Borders, Social & Economic Progress Report 2002*

The IDB thus maintains that “one of the most important immediate objectives of the regional integration strategy of the countries of Latin America is to complete the FTAA in a way that balances the interest of all parties.”<sup>9</sup>

While four Andean Group countries are already beneficiaries under the ATPA, as renewed and expanded under the ATPDEA, much policy, institutional, and legal work must still be done to prepare those countries' economies for the negotiations and entry into FTAA. These have been underway in Bolivia, Colombia, and Peru, with the latter two expecting to begin negotiating a bilateral agreement with the United States in spring 2004.

The potential benefits and costs of entering into the FTAA will not only be different from country to country, but also from sector to sector, with agricultural subsidies and trade barriers in both the North and the South offering big challenges. Clearly, if not yet underway, some technical assistance should be devoted to analyzing the potential impact of trade and investment liberalization on economic growth, employment, and distribution of regional and personal incomes.

For example, how has Mexico's economy and foreign trade sector fared since NAFTA was introduced ten years ago? According to a World Bank study, trade creation was considerable and little trade was diverted. While it is difficult to separate the impact of NAFTA from the 1996 “Tequila” crisis, Mexico's per capita income, which was close to US\$6000 in 2002, owed

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<sup>9</sup> Interamerican Development Bank, Beyond Borders, The New Regionalism in Latin America, Washington D.C., Social and Economic Progress Report 2002. Johns Hopkins University Press, 2002.

4-5 percent of that higher level to the dynamics of NAFTA.<sup>10</sup> Still, critical problems cannot be overlooked. According to the study, insufficient investment in education, infrastructure, technology, and innovation prevented Mexico from catching up with the rest of the developed world as quickly as had been hoped. NAFTA has had an unequal impact on rich and poor regions, large and small firms, large irrigated farms and small plots. And employment and income gains in labor-intensive industries, which moved from the United States to Mexico in the 1990s, evaporated when industries relocated to China and other Asian economies in search of greater efficiency and lower costs.<sup>11</sup> In addition, Mexico's institutional capability has not yet improved significantly despite substantial technical assistance. The World Bank study identified in particular the need to improve rural education, infrastructure, and the agricultural sector's long-neglected institutions.

Aware of Mexico's experience, Central American countries have sought and received substantial TCB assistance for broad initiatives, including education and health improvement for the labor force, in the context of U.S.-CAFTA negotiations, which concluded December 17, 2003. TCB will be continued and strengthened in a joint effort of public and private sector donors. As the USTR Trade Fact Sheet maintains, "in a first for any free trade agreement, CAFTA will include a Committee on Trade Capacity Building, in recognition of the importance of such assistance in promoting economic growth, reducing poverty, and adjusting to liberalized trade."<sup>12</sup>

The U.S.-Chilean FTA may be the best model for agreements with the Andean countries. While critics maintain that some provisions have narrowed Chile's policy choices for regulating foreign investment and controlling capital flows, Chile has been able not only to transform its institutions to facilitate external trade and investment, but also to develop expertise in trade and institutional capacity building. That expertise is now offered around the world, thus contributing to the international revenues of Chile's services sector. In fact, Chilean experts have worked on TCB projects in neighboring Andean countries.

## **Recent USAID Bilateral TCB Support**

Table 2-2 summarizes USAID's TCB support to the four Andean countries in FY2002 and FY2003 (i.e., before publication of the TCB strategy papers). During that time, Bolivia received the most financial and technical assistance (40 percent) and Ecuador the least (14 percent). Besides receiving \$8 million for supporting Cochabamba farmers in switching from coca to produce and to promote exports of fresh and processed vegetables and fruits, Bolivia also

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<sup>10</sup> D.Lederman et al., *Lessons from NAFTA for Latin America and the Caribbean Countries: A Summary of Research Findings*, Washington D.C., 2003.

<sup>11</sup> R.Reich, *NAFTA and You, the Consumer*, NPR, December 15, 2003.

<sup>12</sup> US Office of the United States Trade Representative, "Free Trade with Central America, Summary of the US-Central America Free Trade Agreement." [www.ustr.gov](http://www.ustr.gov), December 17, 2003

benefited from a special USAID program for increasing trade competitiveness. The CRECER program in Peru combines TCB with structural and administrative reforms. USAID did not provide any trade competitiveness assistance to Colombia, but concentrated on supporting agriculture, infrastructure, and the financial sector. All received assistance in economic and social infrastructure, including upgrading labor health and educational standards, to accompany the trade support activities, an important point in the light of the NAFTA findings described above.

**Table 2-2**

*USAID TCB Assistance for Four Andean Community Countries, FY 2002/2003*

Type of TCB	Bolivia		Colombia		Ecuador		Peru	
	2002	2003	2002	2003	2002	2003	2002	2003
Total (mill.\$)	15.81	5.55	1.56	8.73	0.47	6.93	6.58	7.94
A S S I S T A N C E L I N K E D T O ( % )								
Trade competitiveness	32	54			73	28	44	31
Agriculture and forestry	44	32		75			22	47
Infrastructure	5	2	29	17				18
Education, health, labor standards	19	12	16	8	6	33	34	
Finance			55		21	39		4
T C B P R O V I D E D M A I N L Y F O R ( % )								
Public sector	51	34	98	39	98	88	35	78
Private sector	49	66	2	61	2	12	65	22

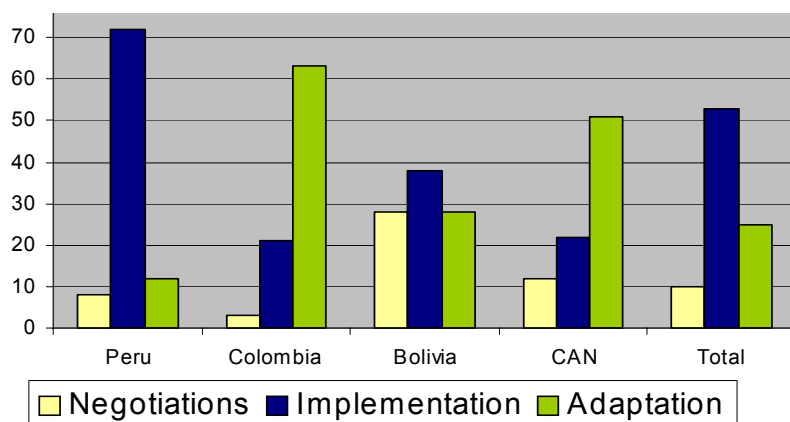
SOURCE: USG Trade Capacity Building Base, USAID Development Information Services.



### 3. Country and Regional Strategies for Building Trade Capacity

To prepare for the donors' meeting in Washington D.C. on October 13–14, 2003, Bolivia, Colombia, Ecuador, and Peru prepared TCB strategy papers. Summary versions were discussed during preparatory meetings on October 6–7 at the AC's central offices in Lima. With representatives from Venezuela, a combined Andean Group TCB strategy was drafted. It reflected the individual and common concerns about the region's readiness to enter into FTAA negotiations as well as ideas about technical assistance necessary to prepare for negotiations and to implement multiple agreements. As agreed in the FTAA Ministerial Meeting in Quito in 2001, the strategy papers divided their requests into the three categories: preparation for negotiations, implementation of provisions, and adjustment. Figure 3-1 summarizes each country's emphasis for TCB technical assistance.

**Figure 3-1**  
*Allocation of Foreign Aid Requests by Implementation Stage*



The strategy papers follow the outline stipulated in the Hemispheric Co-operation Program. The first part concentrates on trade policies, trade agreements, and foreign trade expansion during the last 10 to 15 years, usually providing only cursory descriptions of TCB assistance received or ongoing. The second part lists needs by the three stages of the FTAA process. The papers propose general and specific foreign assistance needs in the nine groupings, which form part of the FTAA (or FTA) negotiations (Figure 2-1). This structure is logical for the upcoming trade negotiations, but not for discussions with donor agencies. These agencies need an assessment of how the countries have progressed and the likely fruitfulness of further TCB assistance.

## **Progress in Trade Liberalization and Export Expansion**

The strategy papers document the expansion of foreign trade in all four countries during the past decade and caution that the share of trade in total economic activity is still modest and diversification limited. Mineral, agricultural, and fish exports have kept their traditional share of exports in Colombia (50 percent), Peru (70 percent), and Bolivia and Ecuador (75 percent). Only a few new products in the agricultural and manufacturing sectors have expanded more rapidly than other exports, thereby raising these sectors' shares in total activity. Only Bolivia specifies new products (e.g., oils and fats, textiles, leather products) that have a realistic chance of succeeding as exports and therefore merit technical assistance.

The papers show the close link between potential trade expansion and regional as well as firm-level development, but merely mention the major implication of vigorous development of new exports—employment. It would have been useful, for example, to estimate how many new jobs the current export expansion in the textile and apparel sectors (after ATPDEA) has created.

Import liberalization has been going on for more than ten years and will be a major issue in the negotiations for agriculture and services, but only Peru offers a glimpse of what it has accomplished in its industrial sector, which has faced a gradual decrease in import tariffs. True, Peru has lagged in lowering barriers on its industrial products, but tariff and especially non-tariff protection in Colombia's industrial sector is still significant.

Future TCB strategy papers should include a brief discussion of major issues in all the major sectors with substantial exports or export potential. Very specific technical support may have to be considered for areas and subsectors that will be affected by reducing trade barriers. An early assessment of which industries and firms are favored and which endangered by further liberalization would be very helpful.

## Role of the Private Sector

Private sector representatives were involved in formulating the TCB strategies and participated in various committees and national councils routinely convened by executive branches of Andean governments. The strategy papers mention expected private sector participation in technical assistance and training programs, but say little about programs that directly involve businessmen and firms in financing and taking on some of the technical assistance that would improve production efficiency and marketing.

As indicated in Table 2-2 USAID is supporting export development with strong private sector participation in the four Andean economies, especially in Bolivia and Colombia. Similar programs have been carried out in Ecuador and are proposed for Peru by the World Bank Group, which has implemented such programs in Bangladesh, India, Kenya, and Turkey. In these programs, private sector export groups help design the technical assistance project and translate it into improvements on the factory floor and at the marketing and organizational level. That type of arrangement, as well as an arrangement for viable export financing, should be established hand-in-hand with other arrangements for improving the public sector framework and incentive system. Given the difficulty of reducing barriers to competition in the private sector and among private associations, strategy advisers should emphasize private sector participation in the technical assistance projects.<sup>13</sup>

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<sup>13</sup> "Lessons from NAFTA", [www.worldbank.org/laceconomist](http://www.worldbank.org/laceconomist).



## 4. Preparation, Implementation, and Adjustment

Needs for financial and technical support of TCB depend on each Andean country's stage of development and progress in opening up its economy to international competition and in integrating into hemispheric and world markets. Accordingly, the TCB strategy papers argue convincingly for directing donor support to projects for preparation, implementation, or adjustment. But the papers also request assistance in many other areas, some of them possibly quite costly. Priorities are indicated but costs are not estimated. Donors will therefore have a hard time deciding where to allocate resources. In addition, the papers list ongoing and suggested activities but do not make connections between them. Donors need to grasp those connections in order to allocate resources efficiently.<sup>14</sup> Table 4-1 at the end of this section, summarizes TCB needs of the Bolivia, Colombia, Ecuador, and Peru.

### **Bolivia—Preparation and Institution Building**

Bolivia's strategy paper is well structured and comprehensive, providing not only background on the country's general economic and social strategy but also a detailed account of institutions involved in foreign trade and investment. The usefulness and effectiveness of the institutional arrangement is not assessed, though some problems associated with the arrangement are mentioned in the second part of the strategy paper focusing on requests for foreign aid.

The paper lists the trade agreements Bolivia has entered during the last three decades and describes the emerging results. Bolivia's foreign trade is still oriented mainly to its large eastern neighbors, Brazil and Argentina. The paper points out that its trade agreement with the MERCOSUR countries has not stimulated Bolivian exports, confirming the findings of a

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<sup>14</sup>Bolivia's TCB strategy paper lists ongoing support activities by major donor.

World Bank study: "South-South regional integration agreements are more likely to generate divergence, with the less developed members losing relative to the more developed one."<sup>15</sup>

The paper maintains that integration with other AC countries has stimulated trade within that group. Bolivia's gains however are concentrated in a few agricultural products (i.e., soybeans and oil). In addition, growth in exports of leather products, meat, seeds, and textiles was marginal. Imports from the other AC countries were very diverse, ranging from consumer goods to primary and intermediate inputs for the domestic industries. In general, those imports rose less than exports to the regional partners.

Bolivia's bilateral trade agreements with Chile, Mexico, and Cuba had similar results. Trade expanded with Chile, but agreements with Cuba and Mexico had little effect. The U.S. ATPDEA program seems to have had a positive though small impact on Bolivian textile exports, which jumped in the first half of 2003 to about US\$50 million. In previous years, this level of performance had taken a full 12 months.

Bolivia's strategy paper lists the objectives, amounts, timing, and destination of ongoing and planned foreign aid, technical assistance or otherwise, thus showing which TCB issues that various donors have emphasized. Major donors—USAID, the EU, IDB, the Swiss development agency SECO—have focused mainly on strengthening public and private institutions. The United States concentrates on areas that have direct application to negotiating a possible FTAA or a bilateral agreement; the EU on technical infrastructure, such as industrial standards and certification of exporters; and the Swiss on tourism infrastructure. Small, specific support programs include one by the Andean Finance Corporation (CAF) for electronic commerce and a British project that helps identify the impact of trade liberalization and trade agreements on the poor.

Such background information makes it easier to determine which requirements for building trade capacity merit discussion with foreign donors. In addition, the paper clearly describes issues affecting the strengthening of public and private organizations with respect to preparation, implementation, and adjustment of the Bolivian economy to a liberalized international environment of regional and global trade governance.

## PREPARATION

The strategy lists high priority tasks for upcoming negotiations. One of these tasks is training Bolivians to negotiate subjects in which they have little experience (e.g., unfair trade practices and intellectual property rights). Other tasks pertain to Bolivia's participation in the FTAA's potential institutional arrangements. In spite of Bolivia's change in government and a possible policy shift from an emphasis on multilateral FTAA negotiations to bilateral trade

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<sup>15</sup>World Bank. 2000. *Trade Blocs, A World Bank Policy Research Report*. Oxford University Press. p.90.

negotiations with the United States, these tasks will remain a high priority for policymakers, especially if Bolivia expects to join bilateral U.S. FTA negotiations early on. Moreover, such training will be useful not only for Bolivia but possibly also for other AC economies involved in bilateral negotiations. A possible shift in priorities would indicate that strategies are flexible and can be revisited and revised.

With regard to the nine negotiating groups in the FTAA, Bolivian authorities require programs to strengthen the technical capabilities of institutions involved in verifying and supervising industrial standards, certification, and accreditation. Most important, but not mentioned, are conformity assessments, which are required to expand transactions for many industrial products with trading partners.

Bolivia is concerned also to upgrade the information system of government procurement offices. The authorities also require a background study on the services sector, which has been lagging far behind the services sectors of other AC countries. Given services' increasing importance, such a study seems worthwhile.

The strategy paper does not specify how much training in negotiations Bolivian officials have already had. It seems likely that many have already had training and that their participation in negotiations within the AC should have honed their ability to negotiate with the United States. Thus, one could argue that that strengthening the trade ministry's coordinating function to represent and balance all of the country's interests would be a more appropriate task.

## **IMPLEMENTATION**

To support implementation, the strategy paper requests legal expertise to review national legislation in light of WTO obligations and potential FTAA requirements. It requests assistance in customs, technical departments handling quality control and certification (overlaps with preparation requests), and the legal apparatus concerned with trade disputes and antidumping legislation. It requests assistance in drafting laws and regulations for intellectual property protection, improving agricultural infrastructure and procuring equipment for agricultural laboratories, and drafting and implementing a competition law.

## **ADJUSTMENT**

The Bolivian strategy emphasizes support in identifying and providing technical and financial assistance for promising export products. This will require creating special funds and/or institutions that specialize in export and development finance, strengthening private and public export associations and agencies, and having Bolivian study groups cooperate with foreign technical institutions in conducting impact studies.

The strategy paper prioritizes these aid requests and links them to possible donors who have shown interest. But the paper does not attempt to estimate the cost of such aid. An advance assessment of likely costs would help authorities determine what is feasible over the next two to three years and will be necessary when aid is prioritized. Nor does the paper mention the kind of support to be supplied through the AC, support that should be possible for a number of activities.

USAID representatives in Bolivia have been looking closely at the country's requests, and they have determined areas in which the agency is already involved or is willing to engage. For certain activities, support may be expected from other sources. This aspect needs strengthening in order to optimize coordination and effectiveness in TCB. In general, however, the Bolivian strategy paper and the USAID response have been exemplary and should be followed by the other Andean partners. At the same time, we must remember that a government that favored trade liberalization and foreign investment conceived Bolivia's strategy paper. The president resigned in 2003, and the extent to which the new government will change the emphasis on TCB and re-evaluate the priorities of its predecessor remains to be seen.

## **Peru – Stress on Implementation**

A major goal of Peru's current government is to increase exports to US\$12 billion by 2006, nearly twice the level of exports when it took office in 2001. Peru's TCB strategy paper is especially relevant given its current discussions with the United States to enter into a bilateral trade agreement. Peru is a latecomer to trade liberalization. Thus, it is not surprising that institutional effectiveness and implementation are center stage. Fruitful discussion, however, requires evaluating past and current administrative capacity in foreign trade and investment. Peru's TCB strategy paper does not provide enough information or evaluation on the institutional framework, nor does it list the breadth and depth of external support in trade, investment, and institutional capacity building.

Background in the paper describes three developments in the Peruvian economy: (1) a slowing in population growth from 3 percent in the 1960s and 1970s to less than 1.5 percent in the 1990s; (2) improved economic performance, supporting an annual average economic growth rate of 4 percent; and (3) a doubling of foreign trade between 1993 and 2002, which means an average annual expansion of close to 7.5 percent. The United States is still the largest importer of Peruvian goods—nearly US\$2 billion in 2002—but in the past ten years exports to China and Japan have grown the most rapidly.

The volume of Peru's trade has changed but its trade structure has not. Natural resource exports still capture 70 percent of foreign sales, the mining sector alone making up nearly 50 percent. Among non-traditional exports, processed agricultural products and chemicals show



some promise, their combined share having risen from 7 to 11 percent. Textiles, however, are the single most important item in that category (9 percent) and can be expected to remain so in the near term, in light of the 2003 expansion attributable to U.S. preferences under the ATPDEA.

Parallel to continuing reliance on resource-intensive products is the concentration of firms responsible for those exports. Eighty percent of Peru's exports come from just 120 large firms. Such concentration would seem to be a function of the dominance of large-scale mining enterprises, but even in the textile and clothing sector only 25 firms produce 70 percent of exports. It would seem, then, that some TCB assistance should be devoted to encouraging small and medium enterprises to export, but the great amount of assistance already expended doing so has not had the expected results. In many cases, small firms stayed small with the help of subsidies while avoiding the higher wages, social costs, taxes, and fees paid by large firms. Here, a local financial and administrative infrastructure that caters to small customers--above the level of microfinance-- could encourage more of firms to export.

## **INSTITUTIONAL BUILD-UP**

To meet its ambitious aims, Peru will need to streamline and better coordinate institutions working in foreign trade and investment. From the start, Peru's TCB strategy paper emphasizes the importance of an institutional network, noting creation of the National Competitiveness Council and the Ministry of Foreign Trade and Tourism created in 2002. The Council's task is to "elaborate a national competitiveness plan, based on the following priorities: to improve the productivity of the enterprises, expand exports, and create a favorable investment climate." The new ministry directs, coordinates, executes, and supervises foreign trade policy and international trade agreements, and promotes Peruvian exports. In the wake of the Cancun WTO meetings and Colombia's ambitions to enter into bilateral negotiations with the United States, President Toledo created a multisector commission to develop a trade policy toward the United States. It favored following the Colombian initiative. While the pursuit of a bilateral agreement with the United States takes priority, the Ministry of Foreign Trade is discussing with its MERCOSUR neighbors a comprehensive trade agreement. The government has also conferred with representatives of the private sector and academics (Commission ALCA/PERU) and has started a national dialogue with labor and environmental representatives on integrating into the world economy.

To help Peru adapt to "integration and free trade," authorities want to pursue five major goals: (1) improve public information and dialogue with civil society, (2) promote infrastructure investment, (3) develop medium and small enterprises, (4) modernize manufacturing sectors, and (5) decentralize government by gradually transferring power and resources to regional and local authorities. Here then is a clear attempt to link specific trade and investment strategies to general economic and social development goals. Achieving these

goals while integrating Peru's economy into global structures will likely require additional public revenue to shore up and improve weaker sectors and regions.

Like the Bolivian TCB strategy paper, the Peruvian paper lists many requests for improving tools and institutions as they relate to the nine areas identified at the 2001 Quito FTAA Summit. Unlike the Bolivian document, Peru's paper does not provide information on past and current foreign support for foreign trade and investment.<sup>16</sup> The request listing does not mention which agency or agencies might be interested in supporting an area, quantify amounts needed to undertake support, or which actions might be executed at the level of the AC. It may be best, therefore, to summarize apparent first priority requests, with some description of second or third priority requests in case those are judged more crucial to clarifying and supporting the five major goals of Peru's development program.

## PREPARATION

With some technical assistance already underway, the top priority identified by Peru is training in tariff determination and certificates of origin. For general investment and specific sectors, the Peruvians are requesting a number of studies, ranging from a general survey of Peru as an investment location to analysis of the impact of trade-distorting subsidies and other incentives in the agricultural sector. It seems likely, however, that previous governments have done some of that work in connection with earlier trade negotiations. It may now be time to move from macroeconomic impact studies using the general equilibrium (GE) model, to partial equilibrium approaches for major sectors, studies which the U.S. government may be able and willing to fund. Peru is also requesting assistance in identifying export products for markets with which Peru will have free trade agreements. Such work seems long overdue and is now urgent. Peru needs to know possible export "winners" so it understands on a continuous basis trade opportunities arising in the dynamic world market.

## IMPLEMENTATION

Peru's TCB strategy papers lists more than 70 tasks, 41 of which are considered top priority. An immediate task is building statistical databases for traded goods. Other tasks include a study of possible dumping practices of trading partners, gaining expertise in antitrust legislation and procedures, collecting information on and discussing with experts the various special trade agreements on textiles and agricultural subsidies. In the customs area, the paper proposes simplifying customs procedures, improving customs' physical infrastructure, and training custom officials and those in charge of technical standards, certification, and accreditation.

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<sup>16</sup> IDB-financed programs, ranging from fostering the productivity of exporters to supporting public sector decentralization, are briefly mentioned.

Many requests relate to sanitary and phyto-sanitary measures. Peru, as well as the other Andean countries, will need assistance in training inspectors to certify exporters' SPS standards. Peru has started producing some nontraditional agricultural products for foreign markets, so it is essential that authorities fully understand, supervise, and enforce rules and regulations.

Requests for technical assistance in intellectual property rights (IPRs), competitiveness, and antitrust legislation are also numerous and ambitious. The legal bases for these areas have been in place for some time, but not fully implemented. Here, implementation has required many consultancies and much training of public officials. The United States' 2003 NTE Report cites widespread concern about Peru's IPR enforcement and piracy problems; so this seems an area ripe for TCB assistance.

Peru's strategy paper confirms other problems, such as insufficient oversight of the regulatory process caused by "a lack of resources, expertise and independence of the executive branch ministries, regulatory agencies, and the judiciary."<sup>17</sup> The paper requests assistance to improve the quality, efficiency, and effectiveness of ministry and agency personnel. Ongoing support in these areas will need to be extended over a number of years. Peru also requires many programs and co-ordination exercises related to the environment.

At present, Peru's numerous requests are of limited use because the tasks involved require much more background information on current status and assistance already provided. Peruvian policymakers and officials have participated in numerous international and regional negotiations and conferences; therefore, the request listing seems to be more of an enumeration of tasks that will prove more useful once authorities determine who has been doing similar tasks and how well they have done them.

## ADJUSTMENT

In addressing adjustment issues, the strategy paper returns to the five goals cited earlier. Financial and technical assistance for medium and small enterprises needing help to adapt to the new environment receives special mention. Access to financing for SMEs is clearly required for the domestic and export markets and whatever technical assistance is required deserves priority. The 2003 CRECER program, however, has initiated a program in this area. Requests for technical assistance to improve the physical infrastructure—and with it the competitiveness of the country—are made without specifying which roads should be financed and built. Again, there is a USAID allocation of more than \$760,000 that could be used for a more detailed analysis of how to reach outlying regions and provide a better regional balance in Peru.

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<sup>17</sup> USTR. The 2003 National Trade Estimate Report on Foreign Trade Barriers, p.309.

## Ecuador—Catching up with Neighbors

Ecuador's TCB strategy paper describes the problems the economy experienced in the late 1990s, problems "which undermined the credibility of the policy makers and played havoc with their budget projections resulting in reduced investment, rampant exchange market speculation, capital flight and a loss of confidence in the nation's currency." That crisis also slowed reforms, and the authorities are aware of the amount of work that has still to be done to build trade capacity. They also point out the risks of failing to carry out the many reforms that a strong outward-directed program will require for a regional or bilateral FTA with the United States.

Given those concerns it is no surprise that the Ecuador's TCB strategy paper was issued late, only after deliberation that the country had no choice but to participate in the FTAA/FTA negotiating process. Being left out of the preferential regional tariff system would constrain the export sector, especially in a small economy the foreign trade share of which has increased from less than 30 to more than 60 percent during the last thirty years. Hope for better performance is somewhat justified, with the economy expanding at an average annual rate of 3.5 percent in the previous three years and prospects for low inflation and more rapid growth in 2004, as well as increased petroleum output and brisk construction activities.

Concentration on primary products in exports has remained at about 75 percent, but this includes some newer products, such as cut flowers and shrimp. Now the goal is to maintain quality and reliable delivery rather than attempt costly diversification in industries that require protection. Consequently, the TCB strategy stresses the modernization of agricultural production. It recognizes the potential of foreign investment to provide the capital and technology to enhance export growth and with it economy-wide expansion. That, in turn, requires a more concerted effort to apply, and apply consistently, public policies in Ecuador and in the Andean Common Market.

A review of its various trade agreements shows that Ecuador has been engaged with most countries in the hemisphere. The strategy paper states that Ecuador maintained surplus trade balances before the "dollarization" of the economy, which turned trade surpluses into deficits. For Ecuadoran policymakers this is one more reason to modernize major export sectors and achieve some harmonization of currency policies in the AC.

Unlike its neighbors, Ecuador does not have a separate ministry to deal with the external trade sector. Negotiations with foreign trading partners and internal coordination for negotiations are left to the Ministry of Foreign Relations. The strategy paper acknowledges that while the ministry has been able to establish a core team of competent negotiators, it needs to reinforce this core, and judging from the representation at the meeting in Lima meeting, that reinforcement is especially urgent for expertise in several specific areas of trade and investment.

The paper lists various external programs and projects that support Ecuador's TCB. Like the reports of the other AC countries, the summary presentation is incomplete and does not relate to the priorities that the authorities had established. Only a few programs have amounts allocated to them, and some of the larger projects deal only indirectly with foreign trade and investment. Here a comprehensive review will be required.

## PREPARATION

Consumed by the fiscal and foreign exchange crises of the late 1990s, Ecuador's policymakers have paid scant attention to trade or trade capacity. Thus some tasks must be executed immediately to prepare for bilateral negotiations with the United States. These tasks fall into at least four categories, concerning the

4. Establishment and/or coordination of statistical databases to provide information for negotiators;
5. Execution of technical studies, which likewise will help negotiators bargain confidently on a basis of solid background knowledge;
6. Technical upgrading of government agencies and their personnel as well as the need to coordinate agencies and government departments involved in TCB; and
7. Design of institutions and/or regulations that will likely be required by the FTA.

The paper makes multiple requests for assistance in strengthening databases. One database would cover "all the topics under negotiations" while another would establish an information service "capable of identifying negotiating scenarios, formulating strategies and analyzing the effects of implementing WTO's TBT Agreement and the FTAA." One wonders about the realism of expectations for external support in this area. Any future technical assistance providers in this area should first check with the authorities about past U.S. support in statistics and in economic impact modeling, which was granted to the Andean countries in the context of the small economies initiative of the FTAA.

Requests for technical assistance in studying the FTAA's fiscal, balance of payments, and structural impact seem reasonable, but, as discussion of the Secretariat's technical assistance activities will show, the Economic Commission of Latin America (ECLA) now conducts fiscal impact studies in all Andean countries. Duplicative effort should also be avoided for the proposed effective protection studies, which entail examining the import tariffs of inputs and then incorporating them in an analysis of the nominal tariff protection of the final output. Such a study would be useful but may already be part of an earlier technical assistance agreement. On the other hand, a comprehensive study of the services sector and an analysis of what the current FTA agreements in Chile and CAFTA countries require should be undertaken as soon as possible and funded appropriately.

Technical support for coordination of interagency activities is of utmost importance for a country that is still well behind its neighbors in complying with WTO obligations, ranging from formal and informal quantitative restrictions on imports to widely varying excise taxes between imported and domestic products.<sup>18</sup> A unified approach seems to be lacking for general negotiations and specific areas (e.g., harmonization of the sanitary and phytosanitary measures applied in Ecuador and among trading partners in the hemisphere and elsewhere). Ecuador's authorities understand that they need to get organized and speak with one convincing voice, and their request for assistance definitely warrants donors' attention.

In preparing an adequate institutional setup for entry into the FTAA, Ecuador is requesting support for (1) the development of technical regulations in accordance with the WTO's TBT Agreement, (2) the establishment of institutional arrangements to manage the full range of issues regarding intellectual property rights, and (3) the establishment of an information service that "is capable of identifying negotiating scenarios, formulating strategies, and analyzing the effects of implementation." This is indeed a big task. But before a donor country can provide assistance, the institutional arrangement of Ecuador's foreign trade and investment policymaking agencies needs to be made clear.

## IMPLEMENTATION

The support required for implementation of the commitments undertaken in the FTAA seem in many ways to be a continuation of some requests related to the preparation stage, with requests for training private participants and public sector officials dominating. On the general level, the authorities want to get support for analyzing the government institutions involved in formulating and implementing trade policies, which would seem useful given the issues described earlier. A continuation of seminars on the different mechanisms for implementing the provisions of the agreement also seems warranted.

As for specific needs, the paper presents a request list covering all aspects of market access, including "refresher courses in customs procedures." This is an area in which USAID has provided substantial technical assistance during the last two years. USAID willingness to continue such assistance might hinge on "rules of origin and customs procedures relating to origin" because of the special requirements of free trade agreements. These areas also require private sector familiarization because the private sector remains responsible for documentation.

With the government's emphasis on modernizing and expanding agricultural production and exports, it is no surprise that all requests in that sector are high priority. Requests for training, technician specialization, and modernization of laboratories and the provincial offices of Ecuador's Plant and Health Service dominate. These requests could probably be met relatively easily.

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<sup>18</sup> USTR, op.cit., p. 91.

More groundwork is required in the services sector, where requests for assistance range from providing sectoral analysis, to promoting firm competitiveness in subsectors, to improving statistics on trade in services and upgrading regulatory agencies.

Requests in other areas, such as procurement and intellectual property, reflect the need for strengthened human resources through “highly specialized training,” and the establishment and/or improvement of national agencies and offices. At the same time, the primary goal remains dismantling of some private and public sector monopolies. This may be partly accomplished by Ecuador opening up further to international trade in goods and services, but liberalization faces stiff opposition in protected sectors that produce non-tradeable goods and services (i.e., activities that cannot easily be exported or imported). Thus, it may be naïve to believe that “assistance in developing the analytical and research capacities will be needed for eliminating Ecuador’s existing monopolies and oligarchies.”

## TRANSITION

Ecuador’s TCB strategy does not request foreign assistance for adjustment measures. It limits itself to a broad review of the major requirements the country has to fulfill if it is to benefit from the FTAA and further integration into the world economy. Without greater effort and consistency in applying public policies in fiscal, monetary, and foreign trade and investment areas, Ecuador’s old problems of instability and unemployment will re-appear more quickly and devastatingly than before.

The paper mentions that the FTAA must improve the country’s Human Development Index and gradually reduce poverty in Ecuador, but the connection between a successful TCB strategy and a positive impact on the general economy is not elaborated. Like other countries’ strategy papers, Ecuador’s seems to be a first attempt to systematically forge a strategy for negotiating an important trade agreement while forming a basis for future broad economic development within a global economy.

## Colombia—Stress on Reform and Adjustment

The TCB strategy lays out four goals:

1. To ensure that all segments of the Colombian population benefit from “new and open regionalism”
2. To promote the competency of government officials, to prepare them to negotiate various trade and investment agreements skillfully, and to modernize government institutions
3. To stimulate private sector activity and to develop tools to increase productivity so that the private sector can meet international standards and requirements

4. To strengthen the competitiveness of the country's exports, especially in the hemisphere

## PREPARATION

The authorities aim to improve communication and inform the public debate on trade, to help citizens understand how integration will affect jobs, income, purchases, and consumption. This concern arises in the context of two forces that strongly affect economic decision-making in developing countries today: (1) technological change in communications and (2) increased pressure from public interest groups (i.e., non-governmental organizations). External assistance may be helpful in selecting communication techniques, though authorities must decide how to advance debate. Given the ongoing nature of FTAA negotiations and the short time to prepare for FTA negotiations, the Government of Colombia has assembled a team of representatives from the public, private, and academic sectors. The country does not require any further assistance for preparation.

## IMPLEMENTATION

In the area of market access, Colombia's strategy requests assistance for two areas—(1) implementing rules of origin and customs procedures and (2) technical barriers to trade. Preferential trade agreements increase demands on customs authorities, who must determine the proper tariff treatment of imports. An effective system of certificates of origin demands verification procedures. USAID experience supporting Ecuador customs provides a worthwhile model to consider supporting a similar exercise in Colombia.

As for technical barriers to trade, Colombia sees a need to upgrade national laboratories, develop industrial standards, and provide the private sector with timely information on national, regional, and international norms, as well as a functioning certification and accreditation system. Experience in other Latin American countries has shown that often the most important support for exporters in opening up new markets consists of conformity assessments that regional and international trading partners go through to provide a legal basis for mutual recognition of norms and certification processes.

Similarly Colombian authorities require technical assistance in implementing and enforcing rules to protect intellectual property rights (IPR). Similar to the other AC countries, Colombia still has work to do in enforcing trademark legislation. Contraband and counterfeit are still widespread. According to USTR, the Superintendency of Industry and Commerce suffers from inadequate financing and trademark and patent applications exceeding 17,000.<sup>19</sup> Colombia's strategy paper agrees with that assessment and requests technical assistance in training on customs measures that fight piracy, either through improved information systems or mutual assistance agreements; in training agencies responsible for IPRs; and in upgrading,

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<sup>19</sup> USTR, *op.cit.*, p.79



expanding, and implementing the national accreditation service. It would seem appropriate for USAID to consider supporting some of Colombia's requests in this area.

Colombia's TCB strategy paper identifies serious shortfalls in sanitary and phytosanitary measures. Here, the institutional setup is still rudimentary. The regional network of agencies is weak does not have the resources necessary to provide tools or skilled technicians who can ensure a safe environment in raising cattle and other animals. One would assume that as a follow-up to USAID's funding "to strengthen Colombian agribusiness capacity to export traditional and nontraditional crops," support for such improvements may be logical and useful.

## ADJUSTMENT

Colombia's TCB strategy emphasizes the need to support efforts to adapt to the rules of international trade and investment. Because groups and organizations already involved in international trade and investment will take advantage of open regionalism, economic power could be further concentrated in a few central regions and in the hands of few hundred families or corporations. Thus, the strategy emphasizes overcoming discrimination and neglect of ethnic groups and women entrepreneurs, as well as underdevelopment of regions and SMEs in scattered villages and towns, by ensuring access to better transportation, communication, equipment, and management tools for these groups. Requests for technical assistance seem very similar to the aims of the "anti-poverty" support programs that multi- and bilateral donors have been eager to finance for more than a decade. Here, however, requests concentrate on promoting participation in international trade and on stimulating economic activities generally. For example, recognizing that some SMEs may fail as the economy opens, the paper requests pilot and training programs that provide new opportunities in sectors in which these firms may have a competitive advantage.

**Table 4-1***Summary of TCB Needs by Stages of Preparation, Implementation, and Adjustment*

Bolivia	Peru	Ecuador	Colombia
<b>P R E P A R A T I O N</b>			
<b>INSTITUTION BUILDING</b>			
<ul style="list-style-type: none"> <li>• Funds to train a permanent inter-agency team to attend negotiations and co-ordinate implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen interagency co-ordination</li> <li>• Evaluate and upgrade agencies regulating various service sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen interagency co-ordination</li> <li>• Evaluate and upgrade agencies regulating various service sectors</li> </ul>	
<b>IMPACT/ TECHNICAL STUDIES</b>			
<ul style="list-style-type: none"> <li>• Macroeconomic, regional, sector, and selected product impact studies</li> <li>• Training team of experts on “rules of origin” issues</li> <li>• Competitiveness study of the services sector, pointing out current short-comings and potential strengths of major sub-sectors</li> <li>• Collect information on legal impediments to opening the services sector and suggest steps to overcome them</li> <li>• Study on government procurement of goods and services (particularly construction) to improve transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare fiscal impact study, including analysis of possible new tax policy requirements</li> <li>• Technical study to determine the attractiveness of the country’s investment climate</li> <li>• Initiate study measuring ongoing trade flows</li> <li>• Background study on foreign trade incentive systems of partner countries</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare macroeconomic, regional, sector, and selected product impact studies, including analysis of effective protection and trade flow review</li> <li>• Training a team of experts on “rules of origin” issues.</li> <li>• Construct agricultural trade statistical data base and related national tariff nomenclature</li> <li>• Competitiveness study of the service sector, pointing out current shortcomings and potential strengths of major subsectors.</li> </ul>	<ul style="list-style-type: none"> <li>• Impact Study of MFS rules on Colombian agricultural exports</li> <li>• Technical study of non tariff barriers for agricultural products in the Americas</li> <li>• Study of the agricultural sector, identifying products which have competitive advantage</li> <li>• Study legal impact of Intellectual Property Rights provisions on Andean Community Legal Framework</li> </ul>
<b>TECHNICAL TRAINING</b>			
<ul style="list-style-type: none"> <li>• Technical advice and awareness training on international rules on foreign investment</li> <li>• Technical training for negotiators on intellectual property rights, anti-trust legislation, services sector institutional framework</li> </ul>	<ul style="list-style-type: none"> <li>• Development of statistical system to provide background data for major negotiating issues</li> <li>• Training in tariff negotiating methods, including case studies of existing trade agreements</li> <li>• Technical training in negotiations regarding WTO government procurement agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Development of statistical system to provide background data for major negotiating issues</li> <li>• Training in tariff negotiating methods, including case studies of existing trade agreements</li> <li>• Training of personnel of major technical agencies involved in industrial standards, certification etc., including control, inspection, and approval procedures</li> <li>• Technical training in negotiations regarding WTO government procurement agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Technical advice and training on international rules on Intellectual Property Rights</li> </ul>

Bolivia	Peru	Ecuador	Colombia
<b>PROMOTE AWARENESS</b>			
<ul style="list-style-type: none"> <li>• Design an open communication approach to the private sector and the general public, incorporating civil groups (NGOs)</li> </ul>	<ul style="list-style-type: none"> <li>• Design an open communication approach to the private sector and the general public, incorporating civil groups (NGOs)</li> </ul>	<ul style="list-style-type: none"> <li>• Design an open communication approach to the private sector and the general public, incorporating civil groups (NGOs)</li> </ul>	<ul style="list-style-type: none"> <li>• Design and open up an innovative communication approach with civil society</li> </ul>
<b>I M P L E M E N T A T I O N</b>			
<b>INSTITUTION BUILDING</b>			
	<ul style="list-style-type: none"> <li>• Educate bureaucracy on implementation process</li> </ul>	<ul style="list-style-type: none"> <li>• Educate bureaucracy on implementation process</li> </ul>	<ul style="list-style-type: none"> <li>• Educate bureaucracy on implementation process</li> </ul>
<b>TECHNICAL STUDIES</b>			
<ul style="list-style-type: none"> <li>• Guidance on necessary legislative and regulatory changes</li> </ul>	<ul style="list-style-type: none"> <li>• Implement improved statistical systems in major sectors, with special emphasis on the service sector</li> <li>• Identify and elaborate relevant indicators of international competitiveness</li> <li>• Improve the information system of external markets collected by the country's trade bureaus abroad</li> </ul>	<ul style="list-style-type: none"> <li>• Study evaluating major sectors and their prospects after agreement takes effect</li> </ul>	<ul style="list-style-type: none"> <li>• Guidance on necessary legislative and regulatory changes</li> </ul>
<b>MARKET ACCESS</b>			
<ul style="list-style-type: none"> <li>• Funding to train customs officials</li> <li>• Strengthening of SIVEX to improve "country of origin" certification process</li> <li>• Strengthen agencies involved in certification, accreditation, and quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Identify and analyze the system of non tariff measures in partner countries</li> <li>• Training of customs officials on rules of origin and custom procedures regarding the certification and verification of the origin of goods</li> <li>• Technical and financial assistance for restructuring the agency overseeing the application of safeguards</li> <li>• Strengthen agencies involved in certification, accreditation, and quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Training of customs officials on future FTA(A) rules of origin and custom procedures regarding the certification and verification of the origin of goods</li> <li>• Technical and financial assistance for restructuring the agency overseeing the application of safeguard</li> <li>• Strengthen agencies involved in certification, accreditation, and quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Improve customs procedures for determining rules of origin</li> <li>• Set up of a support and guidance system for technical standards management</li> <li>• Strengthen agencies involved in certification, accreditation, and quality control</li> <li>• Training courses for Colombian technical personnel and participation in international meetings</li> </ul>

Bolivia	Peru	Ecuador	Colombia
<b>SUBSIDIES/ANTI-DUMPING</b>			
<ul style="list-style-type: none"> <li>• Information and technical advice on international rules concerning (export) subsidies, anti-dumping and/or other compensatory measures</li> </ul>	<ul style="list-style-type: none"> <li>• Technical advice to strengthen the statistical base and train technical unit responsible for subsidies and anti-dumping</li> <li>• Reforming existing legal framework according to international rules concerning (export) subsidies, anti-dumping and/or other compensatory measures</li> </ul>	<ul style="list-style-type: none"> <li>• Information and technical advice as to strengthening the technical unit responsible for subsidies and anti-dumping</li> <li>• Technical support for reforming existing legal framework according to the international rules concerning (export) subsidies, anti-dumping and/or other compensatory measures</li> </ul>	
<b>DISPUTE SETTLEMENT</b>			
<ul style="list-style-type: none"> <li>• Training a legal team</li> </ul>	<ul style="list-style-type: none"> <li>• Seminar on experiences with alternative dispute settlements</li> <li>• Training of a teams to handle and solve trade disputes, including public and private sector participants</li> </ul>	<ul style="list-style-type: none"> <li>• Training of a legal team to handle and solve trade disputes, including public and private sector participants</li> </ul>	<ul style="list-style-type: none"> <li>• Training of a legal team (possibly together with experts from the other Andean countries) to handle and solve trade disputes</li> </ul>
<b>AGRICULTURE</b>			
<ul style="list-style-type: none"> <li>• Funds for research stations and labs, especially new equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Funds for research stations and labs, especially new equipment</li> <li>• Training of technical units to evaluate sanitary and phyto-sanitary measures, including fellowships to attend courses and learn about experience abroad</li> </ul>	<ul style="list-style-type: none"> <li>• Funds for research stations and labs, especially new equipment</li> <li>• TA for creation technical unit to evaluate the sanitary and phyto-sanitary measures</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening of the entities in charge of the control and monitoring of sanitary and phyto-sanitary measures.</li> <li>• Training in risk analysis of quarantine treatment of pests and Services</li> </ul>
<b>SERVICES</b>			
<ul style="list-style-type: none"> <li>• Institution building by technical training of teams in those government agencies responsible for regulating various service sub-sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Technical training of teams in those government agencies responsible for regulating various service sub-sectors, improving efficiency of regulation and incorporate business associations in decision making</li> <li>• Sector analysis, with emphasis on interrelations among sub-sectors,</li> </ul>	<ul style="list-style-type: none"> <li>• Sector analysis, with emphasis on interrelations among service sub sectors, complementing study undertaken on more aggregated level during preparation</li> <li>• Institution building by technical training of teams in those government agencies responsible for regulating various service sub-sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of FTA impact on major service sub-sectors</li> </ul>

Bolivia	Peru	Ecuador	Colombia
<b>INVESTMENT</b>			
	<ul style="list-style-type: none"> <li>• Impact study on effects of trade agreement(s) on investment potential of Peru</li> <li>• Effort to communicate the possibilities of investment growth in various regions of the country</li> </ul>		<ul style="list-style-type: none"> <li>• TA for designing and implementing the country's investment strategy and incentive system</li> </ul>
<b>INTELLECTUAL PROPERTY</b>			
<ul style="list-style-type: none"> <li>• Technical support to write laws and regulations.</li> <li>• Strengthening SENAPI, especially updating data on IPR cases</li> </ul>	<ul style="list-style-type: none"> <li>• Impact study of the application of new IPRs on distinct sectors of the country</li> <li>• Dissemination of the laws and regulations for the protection of IPRs.</li> <li>• Strengthening of statistical data base of industrial property applications and records</li> </ul>	<ul style="list-style-type: none"> <li>• Technical Support for the actualization and application as well as dissemination of the laws and regulations for the protection of IPRs.</li> <li>• Institution building by technical training of teams in those government agencies responsible for regulating various service sub-sectors</li> <li>• Training of judges, lawyers, public and private sector specialists in international intellectual property rights</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of a comprehensive information system on industrial property registers</li> <li>• Technical Support for the design and implementation of accreditation, copyright and industrial property.</li> <li>• Strengthening of agencies involved in IPR legislation and implementation cases</li> </ul>
<b>COMPETITION/ANTITRUST</b>			
<ul style="list-style-type: none"> <li>• Technical Support to write antitrust legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Establish agency responsible for competition policies</li> <li>• Training officials</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment/improvement of national agency/office responsible for country's antitrust policies</li> <li>• Training officials</li> </ul>	<ul style="list-style-type: none"> <li>• Technical Support to write antitrust legislation</li> </ul>
<b>GOVERNMENT PROCUREMENT</b>			
<ul style="list-style-type: none"> <li>• Technical assistance for recently established "Information Systems of Government Procurement," including computers and software</li> </ul>	<ul style="list-style-type: none"> <li>• Support technical study of government purchases and suggest possible changes to improve the co-ordination and increase the efficiency of the public sector</li> <li>• Technical assistance for strengthening information technology systems to permit greater transparency in government procurement of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>• Further strengthening intra/intergovernmental co-ordination</li> <li>• Technical assistance for strengthening information technology systems to permit greater transparency in government procurement of goods and services</li> </ul>	
<b>A D J U S T M E N T   A N D   C O M P E T I T I V E N E S S</b>			
<b>INCREASE COMPETITIVENESS</b>			
<ul style="list-style-type: none"> <li>• Increasing international co-operation and strengthening of SBPC, the National Productivity Council</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of sectors and products with competitive advantage and support further studies of viable export</li> </ul>	<ul style="list-style-type: none"> <li>• Review and strengthen national trade strategy agreed upon by public and private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of sectors and products with competitive advantage and support further studies of viable export</li> </ul>

Bolivia	Peru	Ecuador	Colombia
<ul style="list-style-type: none"> <li>• Identification of sectors and products with competitive advantage and support further studies of 20 “promising” (export) products, selected by SBPC</li> </ul>	<p>markets for those products</p> <ul style="list-style-type: none"> <li>• Develop new forms of subcontracting to increase and widen impact of increased exports through the economy</li> </ul>		<p>markets for those products</p> <ul style="list-style-type: none"> <li>• Financial and technical support to agricultural sector, enabling farmers to improve quality of inputs and outputs in the context of a sustainable development framework</li> </ul>
<b>STRUCTURAL ADJUSTMENT</b>			
<ul style="list-style-type: none"> <li>• Financial and technical support to traditional agricultural sector enabling farmers to experiment with new crops and products</li> </ul>	<ul style="list-style-type: none"> <li>• Financial and technical support to SMEs to incorporate new technologies, such as e-commerce, e-marketing and more intensive internet use</li> <li>• Financial and technical support to traditional agricultural sector to facilitate transition of rural population’s changing activities</li> </ul>	<ul style="list-style-type: none"> <li>• Modernization of agriculture, including traditional export products</li> <li>• Human resources training</li> </ul>	<ul style="list-style-type: none"> <li>• Financial and technical support to traditional agricultural sector to facilitate transition of rural population’s changing activities</li> </ul>
<b>PRIVATE SECTOR DEVELOPMENT</b>			
<ul style="list-style-type: none"> <li>• TA to major private sector groups for new technologies, management techniques and commercialization</li> <li>• Financial support for SMEs requiring capital for expansion and/or restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• TA to major private sector groups for new technologies, management techniques and commercialization</li> <li>• Support for comprehensive managerial courses for SMEs</li> <li>• Design and develop a program strengthening applied science and business capacity to absorb new technologies</li> </ul>	<ul style="list-style-type: none"> <li>• TA to major private sector groups for new technologies, management techniques and commercialization</li> <li>• Financial support for SMEs requiring capital for expansion and/or restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• TA to major private sector groups for new technologies, management techniques and commercialization</li> <li>• Support for comprehensive managerial courses for SMEs</li> <li>• Design and develop a program strengthening applied science and business capacity to absorb new technologies</li> </ul>
<b>INFRASTRUCTURE</b>			
<ul style="list-style-type: none"> <li>• Support for major agencies responsible for infrastructure investment in expanding and/or modernizing transport and communication with emphasis on export development</li> </ul>	<ul style="list-style-type: none"> <li>• Design a strategy to capture private sector participation and finance in infrastructure</li> <li>• Survey status of country’s infrastructure, with emphasis on transport and communication, and investment requirements coming with further regional integration</li> </ul>	<ul style="list-style-type: none"> <li>• Support infrastructure investment in expanding and/or modernizing transport and communication with emphasis on linking the investment to export development</li> </ul>	<ul style="list-style-type: none"> <li>• Survey of status of country’s infrastructure (with emphasis on transport), and priority setting for new investments taking into account the expected increased export development coming with further regional integration</li> <li>• Study of country’s energy sector and the viability of its interconnection with neighboring economies</li> </ul>

Bolivia	Peru	Ecuador	Colombia
SOCIAL AND ENVIRONMENTAL DEVELOPMENT			
	<ul style="list-style-type: none"> <li>• Support coordinated public/private monitoring of impact of trade agreement on the environment</li> <li>• Assist in a program to incorporate all regions of the country in participating in the benefits derived from FTA</li> </ul>		<ul style="list-style-type: none"> <li>• Impact study of agreement on the environment</li> <li>• Assist in a program to select and promote health and social services for potential export</li> </ul>





## 5. Programs, Progress, and Problems of the Joint TCB Strategy

The AC Secretariat's TCB strategy paper lists past and ongoing regional support that the AC has received from USAID, the European Union, IDB, and the CAF. For all those organizations, and especially the European Union, it has seemed best to channel some technical assistance programs through the AC's regional headquarters rather than individual countries. Those programs covered the strengthening of customs unions, quality improvement programs, and the harmonization of national rules and regulations of competition and antitrust. The European Union has also been trying to support some activities, such as the harmonization of technical norms and the upgrading of technology institutes, on a regional basis

Likewise, USAID has provided technical assistance for common sanitary and phytosanitary measures, customs improvement, and establishment of a common competition policy. Several current programs concentrate on upgrading the statistical offices of the member countries to better record trade, customs, and similar data important for TCB decision making in the context of USAID support for the "smaller" countries in the Americas, which includes all of the four Andean nations under discussion.

The IDB provided technical assistance for training public sector officials training in negotiations and established a regional development bank. The bank is primarily involved in preparing and financing "frontier" projects, which, through their location and impact, will be able to help unite border regions through joint infrastructure and other industrial and agricultural investments. In addition, the CAF has been able to have the private exporters of the five countries jointly exhibit regional products at international fairs.

Other areas of TCB assistance that could be executed efficiently at the regional rather than the national level include

1. "Frontier" development and joint export promotion,
2. Certification, accreditation, and conformity assessments,
3. Databases and exchange on public sector purchases, and
4. Joint laboratories for primary and processed food products.

In the context of the implementation stage, the AC is concentrating on receiving technical assistance from the Economic Commission of Latin America (ECLA) for studies analyzing the impact of trade liberalization on the fiscal balances of the Andean nations. With customs duties still an important part of public sector revenues, those studies and their joint analysis and discussion will have to come up with alternative revenue sources. Since tax reform is a difficult and often prolonged political exercise, the earlier those studies are done the better for the policymakers in the individual countries to evaluate, discuss, and implement.

Whether the firm commitment to an Andean Customs Union in 2005 will be carried out remains to be seen. Even if all current members honor the commitment, a technical assistance program of integrating the information systems of the national customs services should have high priority. This requires training personnel to build what the AC calls a “platform of digital services” in trade statistics and administrative customs issues.

The AC also plans to continue its requests for further regional sanitary and phytosanitary measures (supported earlier by USAID). These include a joint information system, laboratories to investigate pesticide residue, and the development of animal health programs.

The Secretariat’s TCB document also advocates development of a common Andean energy market; lays out a strategy for regional biodiversity as part of a hemispheric plan; and offers a strategy for a common policy on coffee production, marketing, and distribution. It also advocates continuation of joint programs to examine the services sectors and government procurement in the AC countries, supported by the OAS. A continuation and extension of these programs would seem fruitful, especially because these two issues will play a prominent role in trade negotiations.

In sum, despite the movement toward bilateralism, the ongoing and proposed AC programs for TCB seem to fit well with the strategies of individual countries. What is needed, however, is closer examination of the usefulness and efficacy of current programs and their impact on national policies and action. This will be only possible in seeing the outcomes of the current programs and discussing with the beneficiaries in individual countries their perception of the usefulness of the regional initiatives.<sup>20</sup>

## From Strategy to Donor Meetings

As negotiation activity expands from the FTAA to bi- and trilateral FTA negotiations, how useful is joint TCB strategy for the Andean Community?. Negotiations in the region now encompass bilateral FTA talks with the United States, not just the FTAA process in which the

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<sup>20</sup> While USTR lists TCB joint activities for most other regional integration agreements, it has not done so for the Andean Community. See [www.ustr.gov](http://www.ustr.gov).

AC speaks for its five member countries. One of the five AC members, Venezuela, is not participating in—or expected to participate in—bilateral FTA talks with the United States. Despite a decade of regional enthusiasm for open integration, the viability of that process remains questionable for the two smaller nations of Ecuador and Bolivia, which benefited less during the prosperous times of the early 1990s and have suffered more during the downturn of the last five years. Moreover, political leaders in those two nations, as well as in Venezuela, have made it clear that a concentration on foreign trade policies will not be a top priority for development of their countries at this point in time.

The joint AC–USAID meetings in Lima revealed that country representatives are uncertain about which support measures should be solicited on a regional basis and which should be considered by individual countries. Consequently, the overlap in national and regional TCB requests is considerable. To the outside observer it seems that at least two factors should play a decisive role in determining the allocation of funds and the administration of the support program: first, the nature of the technical assistance. Training in technical standards, studies of trade policies of major trading partners, or training on negotiating techniques have all been handled on a regional basis and it could be handled so in the future, even if every country deals unilaterally with the United States in trade negotiations, which by themselves will require special TCB support. Second, the nature of the donor. While the European Union and the IDB have preferred to provide technical support and/or trade preferences to AC members as a whole, USAID, other bilateral and some of the multilateral donors, such as the World Bank, have traditionally provided funds and technical assistance to individual countries. The timing and nature of the negotiations of the upcoming FTA with the United States might suggest the possibility of providing joint technical assistance programs for Colombia and Peru, on the one hand, and Bolivia and Ecuador on the other. But this distinction is probably overdrawn.

The AC member countries' summary lists of what could be and should be supported, according to a priority ranking, must influence the choice of partners. The AC secretariat's TCB strategy paper, while providing a useful overview of past and ongoing support, does not prioritize the large list of potential projects. While three individual countries have engaged in ranking the urgency of their aid requests, only Bolivia attempted to ?? with current USAID funding priorities. During the discussion with the regional colleagues in Lima, it was agreed that the other three country representatives would attempt to follow up on the proposals in their respective countries in a similar fashion. It seemed that this action facilitated a summary of the TCB assistance requests those four countries had to present at the Washington D.C. donor meeting in mid-October 2003.



## 6. Conclusions

The TCB strategy papers of Bolivia, Colombia, Ecuador, and Peru were based on the expectation that the Andean Community would integrate into the hemispheric economy upon the conclusion of FTAA negotiations. Officials' focus may have shifted after the United States announced in November 2003 its intention to begin negotiations with Colombia and Peru and to work with Ecuador and Bolivia to bring them onboard early on. That shift does not invalidate the papers of the four individual countries, which will proceed to improve their trade and investment climates regardless of the type of agreements executed in the future. This analysis will therefore remain useful for foreign aid agencies in the context of the planned and ongoing negotiations.

Ten years of NAFTA have made it clear that trade and investment agreements alone cannot substitute for a stable macroeconomic environment and an educated workforce. The countries' TCB strategy papers suggest the need to build and strengthen institutions, a need that experience implies is indeed imperative. The donor community must also evaluate and provide assistance to institutions in the trade sector and improve the investment climate in a more general framework of development, even if some AC countries do not enter into trade agreements in the near future.

In our review of the TCB strategy papers, we agree with the different emphasis that each country places on various aspects of integration and laud efforts to modernize public sector institutions. We are surprised, however, by the scant attention to preparing private firms for the competitive environment that they will enter, especially given that productivity improvements and job creation arise in the private sector. While private businesses were part of the various trade councils and training programs, a demand for and execution of the Andean countries' TA export development programs--which require substantial financial and managerial input from private sector firms--is lacking. Successful export development projects in countries as diverse as Bangladesh, India, Kenya, and Turkey have shown that getting exports moving requires, above all, private sector inputs.

The strategy papers track the nine major FTAA negotiating groups. Our discussion focused on the three stages of trade agreements that the papers were designed to address: preparation, implementation, and adjustment.

Bolivia's discussion of institution building and preparation provides a clear and convincing analysis of past and ongoing external support for improving the country's trade and investment climate. Thus, discussing requirements and coordinating support programs with the donor community is much easier. Only Bolivia has identified potential export products that it wants to promote abroad. Because USAID has been intensely involved in Bolivia's trade capacity building, the agency's current program is attuned to the Bolivian TCB strategy and should be fruitful, even if the country's zeal for TCB weakens and even though a trade agreement with the United States is not a foregone conclusion.

Peru has made great strides on the export front. Institutional changes and streamlining in the external sector demonstrate the country's ambition to make a quantum leap in trade growth and diversification. Its emphasis on requiring technical assistance for implementation seems apt, given its desire to pursue bilateral negotiations with the United States. Nevertheless, Peru's current TCB strategy suffers from weaknesses that must be corrected if Peru is to accelerate policy and institutional reforms. The strategy, for example, does not mention past or ongoing external support for TCB, and the excessively large number of aid requests make it very difficult for the donor community to prioritize and coordinate assistance. In addition, a substantial number of programs listed for bilateral aid might be more cost-effectively provided on a regional basis.

Ecuador's strategy paper describes economic problems experienced in the late 1990s, problems that "undermined the credibility of the policy makers and played havoc with their budget projections," leading to high inflation, reduced investment, and loss of confidence in the currency. That experience caused policymakers to deliberate slowly and carefully on the next steps of liberalization and integration beyond the AC even as they felt inadequately prepared for such steps. Ecuador's TCB strategy and the multiple demands for external support are almost evenly distributed among human resource training, institution building, provision of a sound statistical and economic analytical base, and government agency coordination. Nonetheless, its emphasis is on structural reform of productive sectors, especially agriculture, from which it expects more dynamic growth in output and exports. Well-designed external assistance should be able to contribute to this goal.

Colombia has the longest history of supporting non-traditional exports and will be the first AC country (along with Peru) to enter into FTA negotiations with the United States. Consequently, its TCB strategy emphasizes adjustment issues, a reasonable emphasis because Colombia will use internal resources to prepare for negotiations and follow-up with TCB for implementation of the FTA. The aid requests in the latter area are precise, and support for them would seem to be crucial for coping with the changes in the enlarged external sector of the economy. The requests for support in reform and adjustment reflect the Mexico's

experiences in the wake of NAFTA. They also emphasize the need to support smaller and minority-run enterprises to participate in trade expansion and modernization.

The usefulness of joint regional TCB coordinated by the AC Secretariat has to be re-evaluated in the context of the dramatic shift from an all-out regional FTAA to bilateral agreements involving the larger and more developed countries, Colombia and Peru, but leaving out Venezuela. In reviewing past, current, and future regional technical support, we found that some activities could continue to be channeled through the AC Secretariat.<sup>21</sup> Some donor agencies will probably continue to provide TCB assistance to the AC as a whole, but most support from individual donor countries will be granted through bilateral programs. How useful AC members have found unified support in building country-level capabilities still needs to be assessed.

Conceiving, writing, and evaluating TCB documents is not a one-time exercise. Strategies must be reviewed and adjusted over time. For such a continuous effort we thus recommend (1) a full review of past and ongoing TCB technical assistance, (2) quantifying and prioritizing support that is proposed to the foreign donor community, (3) clarifying and listing the tasks for private sector participation in TCB, and (4) spelling out the implications of TCB for the rest of the economy, particularly education and training, and then specifying the required support.

In the context of the countries' FTA-specific TCB exercises, we briefly reviewed more recent USAID involvement in TCB and export promotion. While the assistance in FY 2002 was uneven, with Bolivia receiving the lion's share and Ecuador only marginal support, figures for FY 2003 show a much more even distribution and an increase for all countries, except Bolivia. USAID's current TCB assistance is still only half that granted to CAFTA countries, but the allocation of \$30 million (versus \$24 million in FY 2002) shows that the agency is increasing its commitment to support trade and investment in these countries. More remarkable than the increase in resources devoted to TCB is the apparent continuation of broad support for education and health, both crucial for successful economic transformation.

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<sup>21</sup> See the statement of the AC's Secretary Fernandez de Soto to stress the link between the upcoming trade negotiation and Andean integration ([www.comunidadandina.org/prensa](http://www.comunidadandina.org/prensa))





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# Appendix A. Data on Business Regulations and FDI Inflows

## Business Regulation in the Andean Countries

Activity		Bolivia	Colombia	Ecuador	Peru	Venezuela	CAN <sup>(b)</sup>	Chile
<b>STARTING BUSINESS</b>								
No. of Procedures		18	19	14	9	14	15	10
Time(days)		67	60	90	100	119	87	28
Cost (% of Y/N)		167	27	63	25	19.3	60	11.6
Min.Capital (% of Y/N)		0	0	28	0	0	6	0
<b>GETTING CREDIT</b>								
Public Reg. Coverage (Borrowers)	(a)	55	0	82	92	97	82	209
Public Reg. Coverage (Borrowers)		58	0	55	54	46	53	45
Private Reg. Coverage	(a)	134	187	0	185	0	169	227
Creditors-rights index		2	0	1	0	2	1	2
<b>ENFORCING A CONTRACT</b>								
No. of Procedures		44	37	33	35	41	38	21
Time(days)		464	527	333	441	360	425	200
Cost (% of Y/N)		5.3	5.9	10.5	24.9	46.9	18.7	14.7
Procedural Complexity index		78	56	72	67	81	71	73
<b>HIRING AND FIRING</b>								
Flexibility-of-hiring index		58	33	37	71	78	55	56
Conditons-of-employment index		95	85	63	81	88	82	65
Flexibility-of-firing index		45	60	65	69	60	60	29
Employment-law index		66	59	55	73	75	66	50
<b>CLOSING A BUSINESS</b>								
Years to go through insolvency		2	3	3.5	2.1	4	2.9	5.8
Cost to go through ins. (%estate)		18	1	18	8	38	17	18
Absol. Priority reserved		100	33	0	33	100	53	0
Efficient outcome achieved		0	1	0	1	1	0.6	0
Goals-of-insolvency index		53	77	24	67	67	58	19
Court-powers index		100	33	67	33	67	60	67

(a) borrowers/1000 capita

(b) non weighted average of 5 Andean Countries

Source: World Bank, *Doing Business in 2004, Understanding Regulation*, Washington D.C. 2004

## Net Inflows of FDI to Andean Community Countries, 1990-2000

Country	US\$ mill(annual average)	% of GDP	Per capita FDI US\$
Bolivia	430	5.6	47.8
Colombia	1,855	2.2	42.2
Ecuador	479	2.9	36.8
Peru	1,456	2.8	53.9
Venezuela	2,285	2.7	91.9

SOURCE: IBRD, World Bank Indicators



## **Appendix B. Andean Trade Promotion and Drug Eradication Act**



1. Section 3103 of the Andean Trade Promotion and Drug Eradication Act (title XXXI of the Trade Act of 2002, Public Law 107-210) (ATPDEA) amended section 204(b) of the Andean Trade Preference Act (19 U.S.C. 3203(b)) (ATPA) to provide that certain preferential tariff treatment may be provided to eligible articles that are the product of any country that the President designates as an "ATPDEA beneficiary country" pursuant to section 204(b)(6)(B) of the ATPA, as amended, provided that the President determines that the country has satisfied the requirements of section 204(b)(5)(A)(ii)(I) of the ATPA, as amended, relating to the implementation of procedures and requirements similar to those in chapter 5 of the North American Free Trade Agreement (NAFTA).
2. Section 3103(a)(2) of the ATPDEA amended section 204(b) of the ATPA to authorize the President to proclaim duty-free treatment for any article described in section 204(b)(1)(A) through (D) of the ATPA, as amended, that is the growth, product, or manufacture of an ATPDEA beneficiary country, that is imported directly into the customs territory of the United States from an ATPDEA beneficiary country, and that meets the requirements of section 204 of the ATPA, as amended, if the President determines that such article is not import-sensitive in the context of imports from ATPDEA beneficiary countries, provided that the President determines that the country has satisfied the requirements of section 204(b)(5)(A)(ii)(I) of the ATPA, as amended, relating to the implementation of procedures and requirements similar to those in chapter 5 of the NAFTA.
3. Section 3103(a)(2) of the ATPDEA amended section 204(b) of the ATPA to provide that eligible textile and apparel articles of a designated ATPDEA beneficiary country shall enter the United States free of duty and free of quantitative limitations, provided that the President determines that the country has satisfied the requirements of section 204(b)(5)(A)(ii)(I) of the ATPA, as amended, relating to the implementation of procedures and requirements similar to those in chapter 5 of the NAFTA.
4. Section 3103(a)(2) of the ATPDEA amended section 204(b) of the ATPA to provide that eligible tuna products of a designated ATPDEA beneficiary country shall enter the United States free of duty and free of quantitative limitations, provided that the President determines that the country has satisfied the requirements of section 204 (b)(5)(A)(ii)(I) of the ATPA, as amended, relating to the implementation of procedures and requirements similar to those in chapter 5 of the NAFTA.
5. Section 203(e)(2)(A) of the ATPA (19 U.S.C. 3202(e)(2)(A)) requires the President to publish in the Federal Register notice of proposed action under section 203(e)(1) of the ATPA (19 U.S.C. 3202(e)(1)) at least 30 days prior to taking such action. Section 212(e)(2)(A) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2702(e)(2)(A)) requires the President to publish in the Federal Register notice of proposed action under section 212(e)(1) of the CBERA (19 U.S.C. 2702(e)(1)) at least 30 days prior to taking such action.
6. In order to implement the tariff treatment provided under the ATPDEA, it is necessary to modify the Harmonized Tariff Schedule of the United States (HTS).

7. Section 604 of the Trade Act of 1974 (19 U.S.C. 2483) (1974 Trade Act) authorizes the President to embody in the HTS the substance of the relevant provisions of that Act, and of other acts affecting import treatment, and actions thereunder, including the removal, modification, continuance, or imposition of any rate of duty or other import restriction.

NOW, THEREFORE, I, GEORGE W. BUSH, President of the United States of America, acting under the authority vested in me by the Constitution and the laws of the United States of America, including section 604 of the 1974 Trade Act, do proclaim as follows:

1. I have designated the following countries as ATPDEA beneficiary countries pursuant to section 204(b)(6)(B) of the ATPA, as amended, and have determined that these countries have satisfied the requirements of section 204 (b)(5)(A)(ii)(I) of the ATPA, as amended, relating to the implementation of procedures and requirements similar to those in chapter 5 of the NAFTA:

Bolivia

Colombia

Ecuador

Peru.

2. In order to provide for the preferential treatment provided for in section 204(b) of the ATPA, as amended, the HTS is modified as provided in the annex to this proclamation.
3. The functions of the President under section 203(e)(2)(A) of the ATPA and section 212(e)(2)(A) of the CBERA with respect to publishing notice of this proclamation are delegated to the United States Trade Representative.
4. Any provisions of previous proclamations and Executive Orders that are inconsistent with this proclamation superseded to the extent of such inconsistency.
5. This proclamation is effective on the date of signature.

N WITNESS WHEREOF, I have hereunto set my hand this thirty-first day of October, in the year of our Lord two thousand two, and of the Independence of the United States of America the two hundred and twenty-seventh.

GEORGE W. BUSH



# Appendix C. World Bank Trade Facilitation and Strategy Projects in Peru and Ecuador

Serious efforts of liberalizing trade and with it modernizing the public sector agencies involved in imports and exports have been underway in all Andean countries since the early 1990s. In the expectations of deriving substantial development advantages if their countries would move more aggressively on the foreign trade and integration front, Peru and Ecuador engaged in a number of “first generation reforms”, which included the streamlining and modernization of their trade regimes, foreign investment regulations, taxation, financial sector reforms, and privatization or modernization of public enterprises and administration.

With the joining of the WTO and the need to translate the earlier executed reforms into action in both the public and the private sectors, the need to follow up with “second generation reforms” has become a great challenge for those two Andean countries. As a consequence, they have requested and are receiving external support, from multi- and bi-lateral aid agencies. The World Bank has been engaged in an “International Trade and Integration Project” in Ecuador and is initiating the “Trade Facilitation and Productivity Improvement Technical Assistance Project in Peru.

This note will discuss those two operations in some detail and on the basis of their projected and actual outcomes suggest possibilities for USAID to engage in financial and technical support activities, which would enhance the impact of those and other foreign engagements in order for the Andean countries getting ready to join various free trade agreements, being it with other trade blocs like NAFTA, APEC, or MERCOSUR or bilateral with both their neighboring and other countries moving into the direction of free trade and open economies.

The Peruvian project, approved by the Board of Directors in June 2003, is expected to spend US\$ 20mill.on five closely related components, ranging from improving strategic planning to be placed in the President’s Office and the development of the Competitiveness Strategy by

the National Competitiveness Council over the strengthening of export finance and transport logistics to the adoption and the implementation of effective quality practices.

In several areas the T.A. meshes well with the themes the US is discussing with the countries considering to enter into free trade agreements with the US and/or NAFTA. Besides the need to develop a comprehensive trade strategy the aim to improve quality and competitiveness with special emphasis on finance and logistics would fit right into the US schemes . However, the World Bank project seems to be a bit top heavy on central co-ordination and administration, which may be problematic in case there is a change in regime, The current President has a low approval rating and will really have to show results in other areas, if he wants to govern and effectively administer a comprehensive export development program.

As a consequence, private sector action will be critical to reach the objectives of the that operation. According to the World Bank Group's private sector organization (IFC), a more direct support to medium and small scale enterprises may have been more effective, as the experience of the earlier implemented Ecuadorian project seemed to indicate. According to the counselor of the Peruvian Embassy, earlier bilateral USDA-Perutechnical assistance experience with asparagus growers had led to the emergence of non-traditional exports of that product, averaging US\$50 million in recent years. There would seem a substantial number of additional vegetables and fruits, the development and exports of which could help US-Peruvian trade to blossom in the coming years.

Those areas have been extensively worked upon in the case of the Ecuadorian International Trade and Integration Project, which was completed and evaluated in 2002 and is now followed by a follow-up project. The emphasis and with it the financial support is here concentrated on working at the firm level, helping to catalyze entrepreneurial learning and innovation, mainly among smaller firms, with the other part of the T.A. being mainly used to upgrade the customs administration program and training for staff at the Ministry for Industry and Trade.

Since the planned second project will have a similar large private sector component, it would seem that, contrary to the Peruvian case, in Ecuador the strengthening of the public sector authorities may still be in higher demand. In discussions with World Bank staff, it was indeed pointed out that one fruitful type of support urgently required in Ecuador is the training of skillful trade negotiators. Given the substantial experience of US trade representatives of those procedures have accumulated, a training program for that personnel should be relatively easily to be accommodated.